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KNOW HOW
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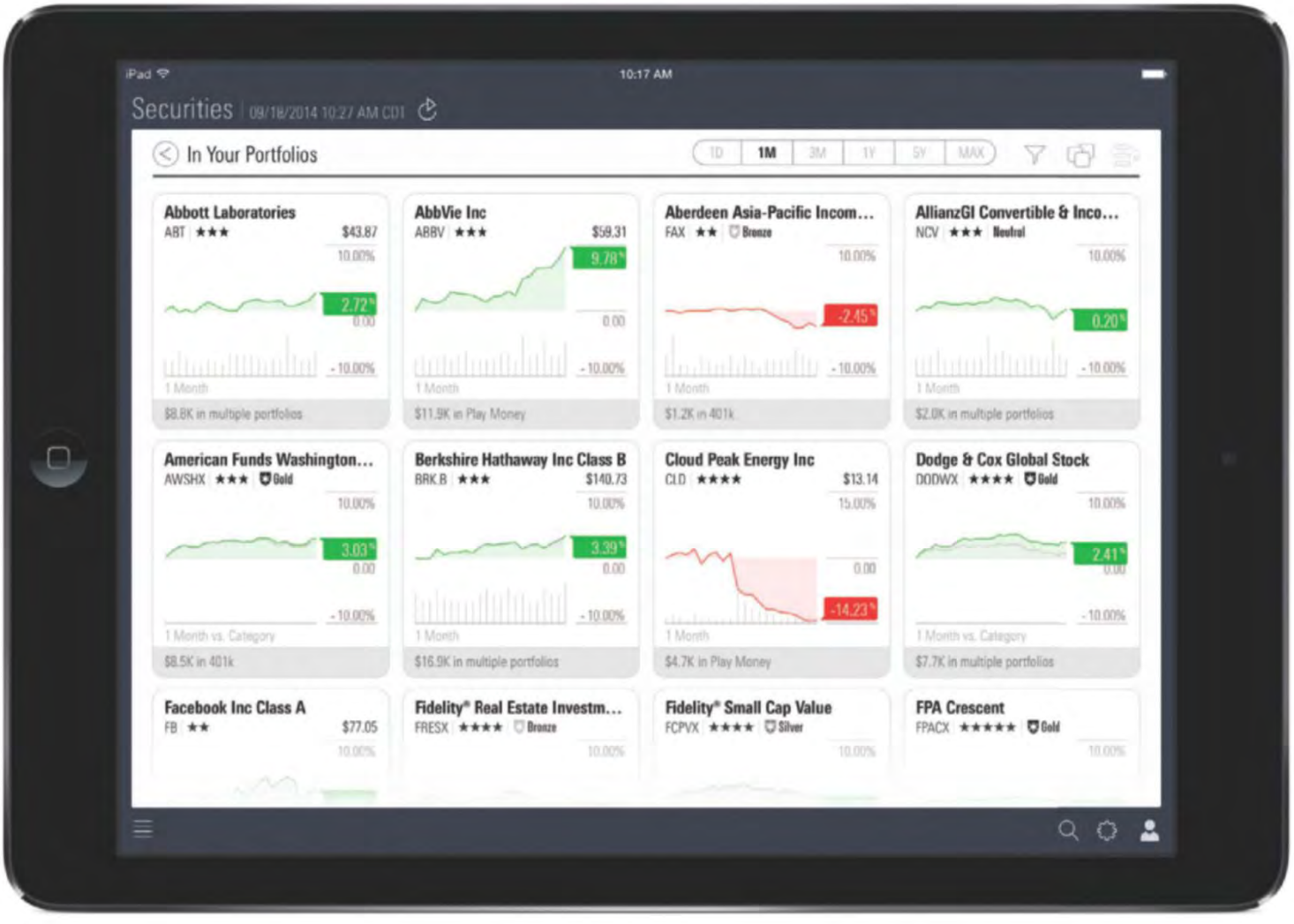


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11.14

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THIS PAGE: YE RIN MOK. COVER: HAIR: RENATO COMPORA AT THE WALL GROUP; MAKE UP: LAUREN ANDERSEN FOR AVON AT THE WALL GROUP; STYLING: EMILY CURRENT AND MERITT ELLIOTT AT THE WALL GROUP

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CLOCKWISE FROM TOP LEFT: RYAN LOWRY; COURTESY COMPANY; POLLY BECKER; COURTESY SUBJECT



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INC.COM/ONLINE-MARKETING

4 Opening Phrases to Use in Email

Need your message heard? Inc.com columnist John Brandon suggests leading with these enticing lines

Inc.com



1

"I'LL BE HONEST WITH YOU."

No one appreciates long-winded emails, and this opening tells the recipient you're being succinct and holding nothing back.

2

"LET ME START WITH AN APOLOGY."

This message isn't about the reader's screwup, but yours. And because apologies are often revealing, they get attention.

3

"I'VE COMPLETED MY RESEARCH FOR YOU."

This phrase has weight, and it signals that something tangible will follow. Who can resist that?

4

"THE RUMOR IS TRUE."

The word *rumor* arouses everyone's curiosity. By announcing that you're confirming one, you've made clear this email is worth reading carefully.

Go Beyond the Page

You'll find the icon at the left on selected pages throughout this issue. That's your signal to grab your smartphone or tablet and go deeper with the content on those pages. Here's how.

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INC.COM/HOWIDIDIT

Daniel Lubetzky
Founder of Kind

ON HOW TO LAUNCH

"Once you're certain you're on the right path, flip that switch and just say, 'No one's going to stop me.'"



INC.COM/PLAYBOOK

Mona Bijoor
Founder of Joor

ON SENSING AN OPPORTUNITY

"That's when you know—you can't sleep because you're thinking of this idea incessantly."

JOSTAPHOT/GETTY

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WELCOME

THE INSPIRATION CHRONICLES

IN EVERY ISSUE of *Inc.*, we try to serve up a variety of feature articles. Some offer direct, practical how-to advice, like this month's Know How cover story. Others address big issues that affect entrepreneurs, such as crowdfunding. And some are just great yarns. Right now I'd like to call your attention to one of the yarns—senior contributing writer Burt Helm's inspiring piece about Gabriel Bristol (page 98)—because of what it says about entrepreneurship in general.

Not to give away too much, but Bristol's life was grim—he was abused as a child and homeless as an adult—until he started working the phones in a call center. He learned he was extremely good at this supposedly unskilled job, an ability that eventually helped him run a business.

It's a great rags-to-riches, only-in-America kind of story. But what's really remarkable about it is how many stories like it you hear when you are around entrepreneurs. It figures, in a way: When your name is on the door, the stakes are simply higher. That's your family's livelihood at risk! Most entrepreneurs have their version of what *Inc.* columnist Thomas Goetz calls "the smoothie moment"—named after the time he realized he had sunk so much money into his company that he didn't have enough cash or credit to buy himself a smoothie.

But the built-in drama of entrepreneurship isn't the whole story. What makes Bristol's narrative so inspiring—and so similar to those of other entrepreneurs—is that it's about character triumphing over adversity. Not every entrepreneur is dealt as bad a hand as Bristol was, but no entrepreneur gets to cruise to success. Even this month's cover subject, Jessica Alba—who, it's safe to say, never faced a smoothie moment—had to stare down doubters (some of her friends, she says, were the worst) who refused to take her seriously as a company founder.

The fact is, character does matter in business. It's no accident that Inc. 5000 honorees scored off the charts on a recent test of such entrepreneurial attributes as risk taking, determination, and business focus. Character is what makes employees and investors believe in you; and it's all you can fall back on when everything is going wrong. Character doesn't always win, but you can never win without it. And when those smoothie moments come around, it's good to have a little inspiring yarn to remind you of that.



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Startup Success.

Launch

"We're bringing a demographic to golf that traditionally hasn't come."
–KEN MAY, CEO, Topgolf

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THE PERILS AND REWARDS OF SIBLING STARTUPS

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THE REVOLT THAT NEARLY KILLED TRUECAR

GOING GREEN
Golf targets that flash in time to music–one way Topgolf attracts Millennials

COURTESY COMPANY

He Ain't Heavy, He's My Partner

A sibling-run startup can be risky for both company and family, but there are ways to make it work



ADORA CHEUNG had tried starting companies with co-founders before. But it wasn't until 2012, while working on her laptop in her brother's filthy apartment, that Cheung both hit on a great startup idea—Homejoy, an online service that helps users locate a housecleaner—and found her ideal partner, her brother Aaron. Today, the pair jointly run Homejoy, which operates in over 30 markets and has more than 200 employees and $40 million in funding.

Their success is remarkable not only because they conquered the challenges of building a thriving company. They also overcame a major handicap for many startups: related founders. Research has shown that businesses co-founded by family members fail at a higher rate than all other types of business partnerships.

Sibling co-founders must deal with the strains of a startup as well as disagreements about ownership or growth and any lingering bitterness over deep-seated childhood rivalries. These pressures can make for disastrous partnerships. Even when a business is a blockbuster success—think Kellogg's and Warner Bros.—it can destroy family relationships, as it did in both of those cases.

"Siblings are your longest relationship in life," says Stephanie Brun de Pontet, a family business adviser at the Family Business Consulting Group in Chicago. "The knowledge they have of each other allows them to poke each other in the most irritating ways." Not an ideal method of working with a business partner.

Why have the Cheungs succeeded when so many sibling co-founders fail?

Adora says it's because they are both introverts who grew up in a goal-oriented, studious family. They rarely get frazzled under stress, and each can be blunt without the other's taking offense. "You inherently trust your sibling more than anyone else in the world," Adora says. "You know you have each other's back."

The sibling startups that succeed, say experts, tend to have partners like the Cheungs—people who share a deep understanding and built-in trust, and are aligned on core values and priorities. If you and your sibling don't already have these things going for you, it might be best to keep your association purely personal.

So before you decide to move forward with a sibling partnership, make sure your relationship is on solid footing. If you're not certain, take a test drive. Adora Cheung knew brother Aaron was a safe bet because he had slept on her couch for several months while looking for an apartment. They found they got along despite the close quarters. "If you

The Jargonator

Swatting the buzzwords of business

By **BEN SCHOTT**



UPGAUGING / • verb. The airlines' code for "increasing capacity without increasing fleets." They do it by replacing smaller planes with larger ones or adding extra seats to existing vessels. But you don't need to be a wordsmith to spot the similarity between *gauging* and *gouging*.
Source: The Dallas Morning News

INVERSION / • noun. "Where a U.S. corporation merges with or is acquired by a foreign company based in a country with a lower tax rate." President Obama has slammed inversions as "wrong" and "unpatriotic"—which obviously will bring an immediate halt to this massively lucrative strategy.
Source: Seattle Times

SPREAD: FROM TOP: KEVORK DJANSEZIAN/AP; POLLY BECKER (3)



BROTHERLY PROFIT
Cameron and Tyler Winklevoss, twin venture capitalists, make a career of doing business together.

have lots of arguments that cannot be resolved quickly, that's a non-starter," says Adora.

Begin with well-defined roles and clear expectations about goals and ownership. Who will make the final call on tough decisions? How will your roles change as the company grows? Siblings Catherine, Geoff, and David Cook discussed a "declaration of roles" when they launched MyYearbook in 2005. This helped separate sibling issues from business issues, Catherine says. "It was important not just for handling fights but for figuring out priorities," she says.

Remember that startups have a high failure rate. But whatever happens, you're family. "Keeping that perspective really helps," says Aaron Cheung. —JENNIFER ALSEVER

NORM'S TAKE
RISKY BUSINESS

I DIDN'T START any of my businesses with my brother or sister, but I did bring my brother-in-law into my first business when it was still very young. We didn't get along, and I wound up firing him. My sister didn't speak to me for the next 20 years.

I know a lot of entrepreneurs who could tell you similar stories, but I'm not suggesting that you should never start a business with a sibling or other close relative. I know people who've done it and have no regrets. Before you try it, however, you need to think hard about the risk you're taking. Splitting up with a sibling business partner is not like splitting up with a partner whom you never have to see again. These breakups affect both your business and your personal life. I have a friend whose two brothers recently fired him from their custom jewelry business. It's awful to watch the emotional pain they're going through right now, and there's no telling when, if ever, it will end.

Some people would argue that because you know a sibling so well, there's a better chance the partnership will work out. That may be true, but building a business puts stress on a sibling relationship that wouldn't occur in a purely business relationship. That's because business reveals unknown aspects of a partner's character—traits you might not like. That's what happened with my brother-in-law and me. I found him overbearing. He found me bullheaded. Once I decided we could not co-exist in the same company, it was too late to prevent damage to the family.

Some sibling partnerships work, and many have produced great businesses. But I'm sure just as many sibling partnerships have ended in a failed business and family bitterness. On the basis of my experience, I recommend avoiding it if you can.

Startup wisdom from senior contributing editor and veteran entrepreneur Norm Brodsky. Please send queries to asknorm@inc.com.



OVERTRACKING SYNDROME
/ • noun. When the act of monitoring a behavior becomes obsessive. Think fitness trackers, which count every step you take, every move you make, every smile you fake, every claim you stake. Frankly, if you didn't track it, it never happened. *Source: Shape.com*

M2M / • noun. "Multichannel networks" are suddenly a thing of the past, and the future is the "many-to-many programming service." M2M is "built around a lineup of thematically aligned content from a range of partners." I've read that quote five times, and I still have no idea what it means. Nevertheless ... M2M! You read it here second. *Source: Variety.com*



HAWKERPRENEUR
/ • noun. A Singapore street vendor wants to sell the recipe for his chicken rice to eager "hawkerpreneurs," a combination of *hawker* and *entrepreneur.* He's charging 42,800 Singapore dollars, his father's lucky number. Not so lucky for the chickens. *Source:* The Straits Times

IN THE BAG

Four Steps to Startup: Launching a Successful Small Business

Starting a business is no small feat. It involves extensive planning, hiring the right people, learning the market, and making smart financial decisions. But we have faith in you. To make things a little easier, we've listed the key steps it takes to start your small business off on the right foot.

1. LISTEN TO THE MARKET

Talk to your customers for information, advice, and new ideas. They are an often-overlooked market research source.



of optimistic small-business owners expect revenue to increase over the next 12 months—up **17%** from the previous year.

2. KEEP OVERHEAD LOW

Keeping your costs as low as possible will help ensure that your business can navigate the cash ebbs and flows that nearly every startup faces from time to time.



90% of small-business failures are caused by poor cash flow.

3. HIRE GREAT PEOPLE

Consider the skill sets your prospective employees will need for the business's growth, and hire the best workers you can afford.

4. REINVEST

Put earnings back into your business so you can maximize new opportunities when they arise—which will usually happen when you least expect.



23 MILLION small businesses in America account for:



of all United States sales

of all jobs

of all net new jobs since the 1970s

Sources: Bank of America | Dun & Bradstreet | U.S. Small Business Administration

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- CLOUD CONNECTIVITY
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- QUICK FIRST PRINT

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YOURS TO MAKE

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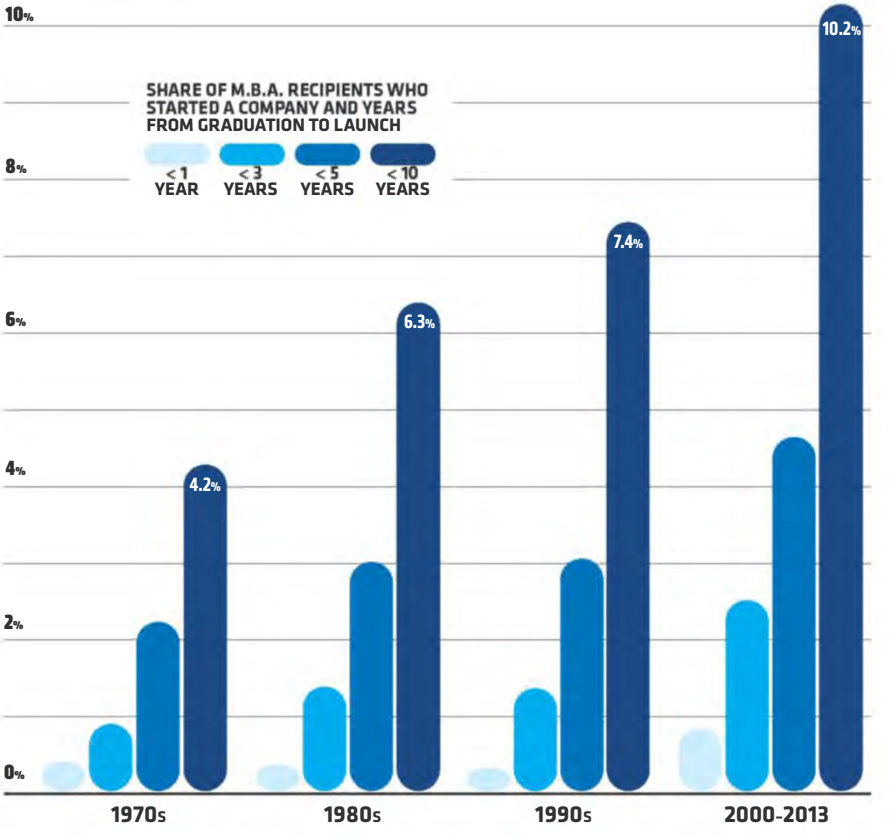
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MASTERS OF STARTUP

More M.B.A. graduates are forsaking corporations to launch their own companies. Why? Because entrepreneurship is cool. (But you already knew that)

TIME WAS, IF YOU wanted a top job at a huge corporation, you got an M.B.A., and if you wanted to start a business, well ... you started a business. Now, future business owners and schools are seeing entrepreneurship as something to be taught. New data from the entrepreneurship program at the University of Michigan's Ross School of Business shows that getting an M.B.A. is increasingly the first stop in the entrepreneurial journey. The school's analysis of a survey of 1965 to 2013 B-school grads (done by the Graduate Management Admission Council, which owns and administers the GMAT) shows them starting more companies now and more quickly than ever. Stewart Thornhill, executive director of the Michigan program, attributes this to the rise, since the 1990s, in entrepreneur-focused M.B.A. programs, and the fact that "entrepreneurs have become rock stars." More tidbits from the Michigan analysis and the GMAC data tell where these M.B.A. rock stars are coming from and the businesses they start with their degrees. –KRIS FRIESWICK



WHO HAS AN M.B.A.? These CEOs launched iconic companies back when their classmates were flocking to Wall Street



PHIL KNIGHT
CLASS OF 1962
Stanford Graduate School of Business
1971: Co-founded Nike



TRIP HAWKINS
CLASS OF 1978
Stanford Graduate School of Business
1982: Founded Electronic Arts



AUSTIN LIGON
CLASS OF 1980
Yale School of Management
1993: Co-founded CarMax



STEVE HAFNER
CLASS OF 1997
Kellogg School of Management, Northwestern University
2004: Co-founded Kayak.com



SHEILA LIRIO MARCELO
CLASS OF 1998
Harvard Business School
2006: Founded Care.com



ANGIE HICKS
CLASS OF 2000
Harvard Business School
1995: Founded Angie's List

THE NEW RITE OF PASSAGE M.B.A. candidates' entrepreneurial aspirations

25% started a business while in school and expect to continue after graduation.

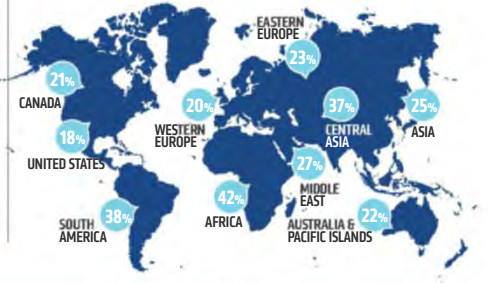
38% owned a business before school and expect to continue after graduation.

37% plan to start a business after graduation.

TECH BEATS FINANCE The types of companies B-school grads launch

PRODUCTS & SERVICES	37%
TECHNOLOGY	17%
CONSULTING	16%
FINANCE	9%
HEALTH CARE	7%
GOVERNMENT/NONPROFIT	6%
MANUFACTURING	6%
ENERGY	3%

IT'S A GLOBAL GAME Share of prospective B-school students considering entrepreneurship as a goal



HAFNER: COURTESY KAYAK; GETTY (5). DATA SOURCE: GMAC AND YONG HYUN KIM, ROSS SCHOOL OF BUSINESS.

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1. Fuel savings estimate of up to 18% according to FTP75 testing of engine OM651 (4-Cylinder) versus MY13 OM642 (V6). Individual mileage will vary, based on factors including vehicle load, driving style, road conditions and fuel quality. 2. Driver is responsible for monitoring fluid levels and tire pressure between service visits. 3. Crosswind Assist engages automatically when sensing dangerous wind gusts at highway speeds exceeding 50 mph. Performance is limited by wind severity and available traction, which snow, ice and other conditions can affect.

Options shown. Not all options are available in the U.S.

Mercedes-Benz

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INC. 5000 INSIGHTS

Cultivating a New Breed of Swingers

Golf isn't big with young players, but Topgolf has found a way to attract them—and their money

NATIONWIDE, ONLY 25 percent of golfers are 18 to 34 years old, but not at Topgolf, a chain of golf entertainment centers. There, 64 percent of customers are in that age range. "We're bringing a demographic to golf that traditionally hasn't come," says CEO Ken May. Topgolf players use a microchip-embedded ball to track their drives' accuracy and distance. The company plans to hire 5,000 more employees and double its 13 locations next year. Below, May shares his tips for wooing Millennials. —ROBIN D. SCHATZ

TOPGOLF *Dallas*
2014 Inc. 5000 rank: **1,859**
Three-year growth rate: **221%**
2013 revenue: **$95.2 million**
Employees: **4,500**

1

PUMP UP THE VOLUME

Topgolf first targeted families and serious players, but two years ago, the company decided to court a younger crowd by inviting DJs and bands to perform in the evenings. Soon, the joints were jumping with young people after dark. Topgolf locations charge by the hour ($20 to $45 per) or by the game for a golfing bay where up to six people can eat, drink, watch TV, and drive golf balls. "The Millennials are there to have fun, not necessarily to get good at golf," May says. Food and drink sales bring in a third of Topgolf's revenue.

2

PREPARE TO BE TWEETED

When younger customers visit Topgolf, they spend as much time on social media as hitting the ball. "It's almost like they are building our brand for us," says May. But what they build, they can also destroy. So Topgolf has purposely designed its facilities to maximize social photo and video sharing. For instance, lights installed on the golf targets change colors and pulse in time to the music. Many locations optimize landscapes and views. Online customer complaints aren't deleted; they're addressed online by local managers.

3

ADOPT A CAUSE

Millennials have a low tolerance for cheesy promotions and insincere gestures. So May encourages Topgolf's marketing managers to find meaningful causes and events to sponsor in their communities. Topgolf has teamed with *Golf Digest* to host the first Green Tie Gala for Golfers Who Give Back, a charity fundraiser. At Christmas, each facility will host an Ugly Sweater holiday theme party, with guests bringing unwrapped toys for Toys for Tots. "We don't want to be insincere," says May. "We try to focus on what's real."

4

THROW A HIRING PARTY

When you create a fun-filled event space and entertainment center that attracts young customers, you need exuberant employees to serve them. Topgolf sites host recruitment events, complete with music, dancing, and refreshments, where managers observe candidates for their team spirit and enthusiasm. Every prospective hire makes a two-minute pitch to a panel of judges on why he or she should be chosen. "We find that it allows us to acquire a different type of person than what other companies get," says May.

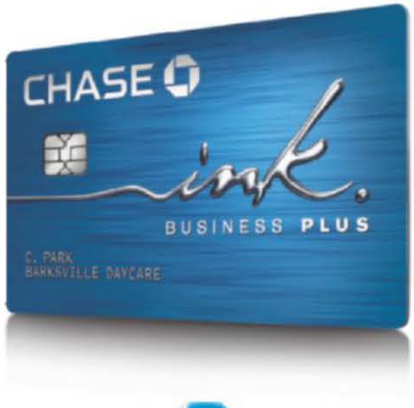
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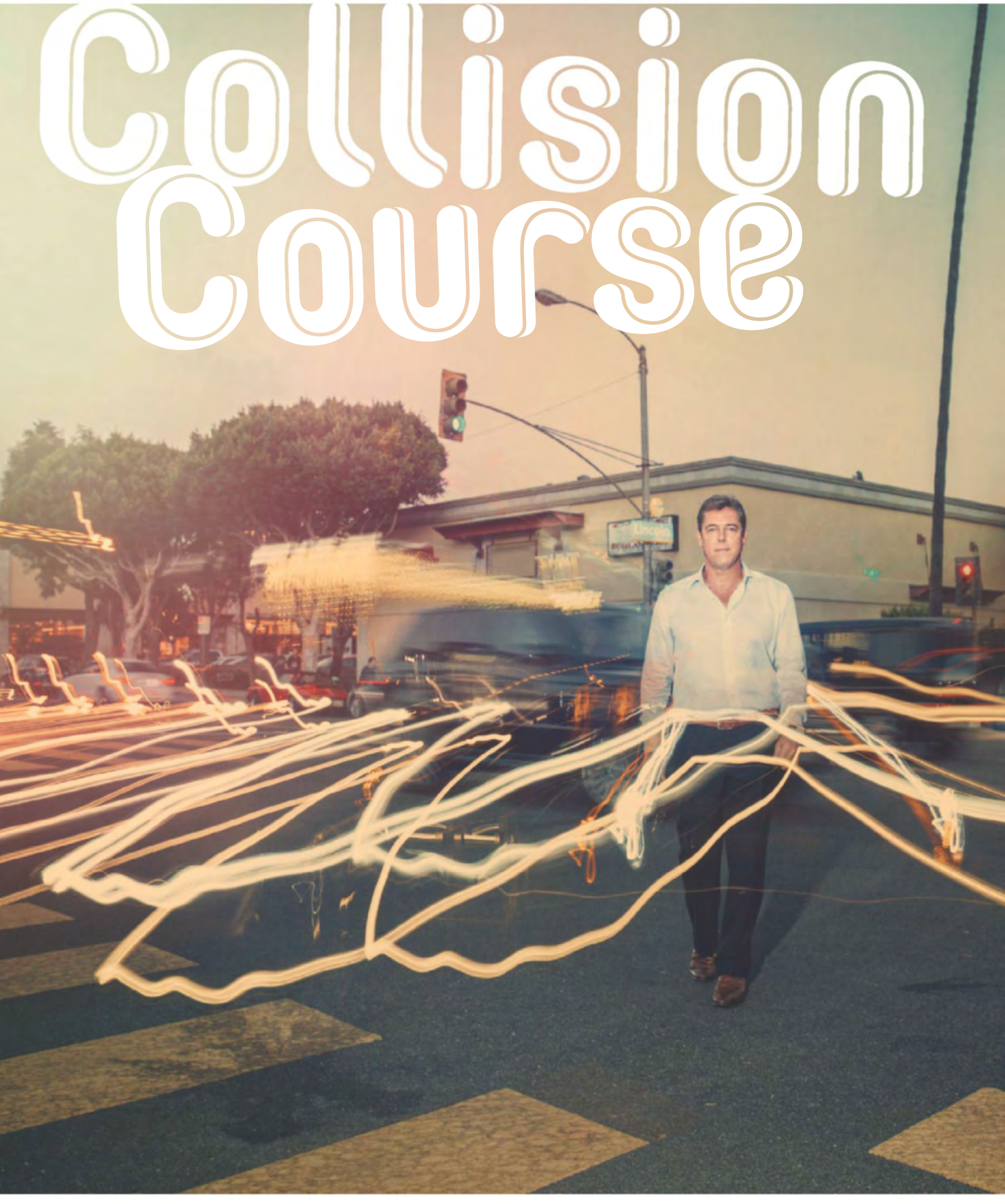


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Collision Course





MAKING IT TO THE OTHER SIDE
TrueCar founder Scott Painter, near his company's headquarters in Santa Monica, California

Ready to conquer the universe by disrupting an industry? TrueCar's Scott Painter was too.

A nation of car dealers decided to disrupt him back

By Paul Keegan
Photograph by LeAnn Mueller

A few years ago, Scott Painter had it made.

He was wealthy, handsome, and smart, a TED and Davos guy who hung out with Elon Musk and Richard Branson. "Everything in my life had gone unbelievably well," he says. "Just off-the-chart success." Over two decades, he had started dozens of companies and raised over a billion dollars in venture funding before finally hitting upon his Really Big Idea in 2005: A company eventually called TrueCar would bring price transparency to the sneaky world of auto salesmanship, and give consumers leverage by telling them exactly how much other people were paying for cars.

For car shoppers, it was nirvana: no more haggling, no more waiting for that gold-chained salesman to talk to his manager to "see what I kin do." Instead, you just went to TrueCar.com, typed in your Zip code and the make, model, and extras you wanted (don't forget the fuzzy dice!), and printed out a voucher, redeemable at your local TrueCar dealer, with a guaranteed low price. It was free and easy. And dealers paid TrueCar only if the lead turned into a sale—$299 for new cars, $399 for used.

Dealers signed up by the thousands, hoping to make up for lost ground after getting whacked by the Great Recession. Customers loved it, flocking to TrueCar's site and those of Capital One, USAA, and other partners that used its technology for their car-buying programs. Investors were thrilled too, ponying up more than $185 million in venture capital. With Painter as chief executive, TrueCar reached nearly $76 million in sales by 2011, went public this past May, and, in its first quarterly earnings report, beat analyst expectations for revenue ($50.5 million) and web traffic (4.2 million unique visitors per month). In September, its certified dealer count hit 9,000.

But in early 2012, TrueCar nearly became just another overhyped internet flop. The problems started just as it was gaining critical mass, airing national TV spots showing real customers saving $3,000, $8,000, even $14,000 on their cars. What those ads failed to mention is that most dealers, despite their greedy reputation, make very little money selling new cars. The average profit margin of a new-car sale was only 3.8 percent last year, according to the National Automobile Dealers Association; most dealers survive on ancillary services such as maintenance, financing, and warranties. "If I pay TrueCar $299 for a lead, I just gave away much of the gross profit on that car," says Donald Hall, head of the Virginia Automobile Dealers Association, who tangled fiercely with Painter.

Near-hysteria broke out among dealers, who feared that TrueCar was encouraging a destructive race to the bottom that would disrupt them right out of existence. In a speech in 2011, Mike Jackson, CEO of AutoNation, the

nation's largest auto retailer, called the situation "a death spiral" for dealers.

The blogosphere lit up. Dealers began telling Painter exactly where he could put those vouchers. Big dealer chains cut ties with TrueCar. State associations told members they could get in trouble with regulators because Painter's company was possibly violating state franchise laws designed to protect dealers. Honda threatened to cut off advertising funds to TrueCar dealers who sold vehicles too cheaply, arguing that it would harm the brand's image. Pictures of Painter as the devil circulated on the internet. "Basically, they suck!" screamed an auto sales trainer named Jerry Thibeau in a typical YouTube video.

Between December 2011 and February 2012, a third of TrueCar's 5,600 certified dealers canceled. Without dealers, it had no business. At TrueCar's offices, in Santa Monica, California, they had a nickname for the crisis: the Swirl. By that, they meant maelstrom, though it also conjured images of TrueCar spinning down the toilet. Before the Swirl, TrueCar had $40 million in cash and was growing rapidly by every measure, from dealerships and cars sold to revenue and web traffic. But all the dealer defections caused TrueCar to lose $75 million in 2012, and its TV ads disappeared. "I thought, 'Holy shit—in 45 to 60 days, I'm out of business,'" Painter says.

Painter's personal life also began to crumble. He was fighting a bitter custody battle with his ex-wife over his two oldest children, and his second marriage was falling apart, he says, because he was so focused on trying to stop the Swirl that he neglected his wife, who was trying to deal with two young children and an unavailable husband. "I was a horrible husband and a horrible father," he says. Panic attacks left him unable to breathe. So he went to the doctor—and was told he had a serious congenital heart defect and had to lose 50 pounds and stop drinking immediately.

The failure of TrueCar would also mean personal financial ruin, because Painter had invested so much of his own wealth in the company. As his performance bonuses dried up, he fell into debt and had to beg his board of directors for a pay raise to support a lifestyle that included a house in Bel Air, a nine-car garage, and a $220,000 silver Aston Martin Rapide.

In early 2012, a desperate Painter did what any upscale 43-year-old Californian whose life was imploding would do: He turned to his therapist. "What's going on?" he wanted to know. "Why is all this happening to me?"

His therapist thought for a moment and said, "Have you ever thought that all of this is your fault?"

PAINTER FELL SILENT. That had never occurred to him. To the words he uses to describe himself—workaholic, idealist, perfectionist—nobody who knows Painter well would argue with adding charming, intelligent, creative, hyperarticulate, and deeply committed to his techno-libertarian beliefs. But, as shocked as Painter was, the therapist had a point. Today, Painter himself says, "I'm an arrogant jerk." And sometimes, he adds, "a complete asshole!"

Arrogant jerkdom takes years to develop, as any shrink will tell you, and for Painter it began in middle-class Sacramento, where he grew up with a stepfather who was "a real hard-ass." Painter was a restless, precocious lad. Inspired by his grandfather Ed Swofford, then CEO of Aloha Airlines, he started his first company, an automobile-detailing service, at age 14. Later, he joined the Army, studied at West Point (political science and engineering), and went to the University of California at Berkeley (economics) on a rugby scholarship. He graduated from neither school. A Berkeley class project led to InfoAccess, his first company to offer car-buying information online to consumers.

Since then, Painter has founded a staggering 36 stock-issuing, incorporated companies. "I love manifesting things out of thin air," he says by way of explanation, adding that he probably has attention-deficit disorder. He also loves cars, which you might guess from the nature of many of his start-ups. Prior to TrueCar, he was probably

TRUECAR'S BATTLE AND TRUCE WITH CAR DEALERS

Contrary to popular belief, car dealers have miniscule—and falling—profit margins.

THE NUMBERS

5.5%
Average gross profit margin per new car, 2003

3.8%
Average gross profit margin per new car, 2013

$1,219
Average gross profit per new car, June 2014

$31,325
Average retail price of a new car

THE BLOWBACK

TrueCar's ads claiming to save consumers thousands of dollars on car deals resulted in many colorful YouTube videos denouncing the company.



"Kill the beast! Kill! Kill! Kill!"
–Jerry Thibeau, CEO of auto-sales training company Phone Ninjas

THE SOLUTION

When TrueCar changed its model, the average gross profit on cars TrueCar helped sell rose nearly 25 percent.

$658
Average dealer gross profit from TrueCar's original model, March 2011

$820
Average dealer gross profit, new model, March 2014

THE COMEBACK

Once dealers were mollified, TrueCar's fortunes changed.



IMAGE SOURCE: YOUTUBE

INCOMING Rows of new Nissans await transport to dealer lots at a port in Los Angeles, TrueCar's second-biggest U.S. market.



best known for CarsDirect, which he launched in 1998, raising $350 million in venture capital. Painter resigned as CEO the following year under pressure from investors after he'd laid off 90 people. As its name implied, CarsDirect aimed to sell cars directly to consumers from the manufacturer, leaving out the middleman. So it's easy to see why many auto dealers still despise Painter—despite the fact that they share certain traits, including a love of choice expletives. "When people say, 'Scott's evil!' they go back to CarsDirect," says Painter. "How can you be a dealer and hear that and not go, 'I hate that fucking guy!'?"

What Painter learned from CarsDirect, and a failed car venture he tried called Build-to-Order, is that the auto franchise system is so protected by state laws, and so politically powerful, that it's nearly impossible to defeat it in any battle. (As his buddy Elon Musk has discovered while trying to set up Tesla dealerships.) So with his next company, Painter decided to partner with dealers. All he had to do was convince them that the information revolution was rendering their old-school selling methods obsolete. If consumers can buy a computer or dishwasher for nearly the same price at a variety of retailers nationwide, he argued, why should the price of a car vary up to 45 percent from one dealer to the next? "We believe that buying a car should be fun and should be fair," Painter declared. "Cars are one of the last commodities that don't behave like commodities because of the franchise system."

Talk of the digital revolution was not exactly embraced by car dealers—*price transparency* being digerati-speak for "lower prices"—but many felt they had little choice. In 2005, Painter and his associates founded Zag.com to run the car-buying programs for big corporations and member-based organizations such as AARP. (Today these businesses

Dealer defections led to losses of $10 million in one month. In 60 days, Painter feared, it would all be over.

TIM RUE/GETTY


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account for more than half of TrueCar's revenue; 38 percent comes from ordinary consumers visiting TrueCar.com and related mobile apps; the rest comes from selling data and consulting to auto and finance companies.) Three years later, Zag launched TrueCar, which culled pricing information from a multitude of sources—finance and insurance companies, vehicle registration, dealers, and other data aggregators—to give consumers something they had never seen before: an up-to-date, real-life snapshot of what people actually pay for cars. In 2010, the two companies merged under the name TrueCar.

Painter's pitch resonated with investors partly because they could all relate to how miserable it can be to visit a car dealership. According to a recent survey by Edmunds.com, one in five people said they'd willingly give up sex for a month rather than haggle for a new car. One in three said they'd rather do taxes, go to the DMV, or sit in an airplane's middle seat. It became Painter's mission in life to fix that. After his first two kids were born, he decided that TrueCar was his perfect chance to settle down and finally build a sustainable company.

Some dealers loved the leads TrueCar provided, especially when car sales dropped off a cliff during the financial crisis of 2008. "TrueCar is better than other lead generators, because customers get a price they can believe and I don't have to pay unless I make a sale," says John Harmond, general sales manager of Santa Monica Ford/Lincoln-Subaru, who has used TrueCar since its earliest days. Though Harmond has to pay $299 for every sale, TrueCar argues that dealers like him can actually save more than $1,000 per transaction, through reduced haggling time and inventory costs as cars sell faster, and by cutting back on marketing and sales staff. About 5 to 6 percent of TrueCar leads turn into sales, Harmond says, far better than the 2 to 3 percent from other lead generators, such as Edmunds.com.

Still, Painter admits that his company was so consumer-centric, and had whipped itself into such a frenzy with what he calls its "Stick it to the man!" attitude, that dealers felt under attack. One TrueCar employee got so carried away that he registered the domain name *fuckedbythedealer.com*. Painter says he would never authorize such a thing and was shocked when he found out, and the employee was promptly fired. But by that time, the damage had been done.

And, as for that "complete asshole" thing—well, one moment that stands out came when Painter sat down for a family Thanksgiving dinner in 2011. At the table was his brother-in-law, Phil Kerr, a Mazda dealer in Arizona. With TrueCar at its pre-Swirl peak and its flashy ads saturating TVs nationwide, Painter began gleefully berating Kerr about how dealers like him would get steamrolled by the digital revolution unless they embraced internet-driven price transparency—all while the rest of the family was attempting to enjoy their mashed potatoes and drumsticks. "I was such an arrogant ass to put him in his place," Painter says.

What Painter didn't know was that the tide had already begun to turn, and

SCOTT PAINTER'S TIPS ON SURVIVING SCREWUPS

The TrueCar story would have had a very different ending had Scott Painter not made an impassioned effort to reach out to his critics. Here, some tips on crisis management should you ever face a similar situation.

1 ADMIT YOUR MISTAKES—AGAIN AND AGAIN
Painter spent nearly a year apologizing at conferences and meetings. At one, a dealer cut him off mid-speech: "I don't think you really changed! You changed because we're forcing you!" Painter replied, "You're probably right. But I'm here telling you what we did was clearly wrong and doesn't work for you." The room warmed up immediately.

2 WALK THE TALK
Talk is cheap. You also have to directly address complaints. TrueCar stopped showing consumers estimates of what dealers actually paid for cars and discouraged price wars, revamping its dealer portal by adding a gross-margin calculator and a red alert when a dealer's price falls below the cost of the car.

3 PLAY BY THE RULES
A disruptive company must conform to existing laws until the legal system catches up to the new technology. Though TrueCar denies that it acts as a broker for car buyers—illegal in some states—it changed its business model to charge a monthly subscription fee in certain states, rather than per deal, and now operates legally in all 50 states and Washington, D.C.

4 STAY RESPONSIVE
When the dust settles, don't go back to business as usual. Create mechanisms to remain vigilant. TrueCar hired prominent auto-industry executives and created a 20-member TrueCar National Dealer Council that meets six times a year to get updates about TrueCar's operations and give the company feedback to prevent future clashes.

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"Almost all of these events were like AA meetings: 'My name is Scott Painter, and I have violated all of you.'"

within mere weeks, the Swirl would begin to overwhelm TrueCar. Those TV ads played a big role—dealers saw that $3,000 to $14,000 in consumer savings coming directly out of their pockets—and industry bloggers began hammering TrueCar. "Your company is evil," wrote Jim Ziegler, an industry consultant and a leader of the dealer revolt. "Your agenda is to destroy us."

TrueCar was also accused of violating state laws by acting as a broker and extracting too much valuable customer data from dealers' computer systems. Painter denies that TrueCar was ever a broker, but the company voluntarily suspended service in Louisiana and Colorado while it overhauled its business model. Now it charges dealers a monthly subscription fee in some states, rather than on a per-deal basis, and operates legally in all 50 states and Washington, D.C. Troy Foster, TrueCar's chief legal and compliance officer, insists that TrueCar is very clear with its dealers about what data it collects and how it is used and that it has never resold customer information to third parties. (Meanwhile, dealers and trade associations confirm they've received queries from the Federal Trade Commission about whether they violated competition laws by conspiring to boycott TrueCar; the FTC declines to comment.)

Struggling to reverse the slide, Painter hired Mike Timmons, a former AutoNation executive, to reach out to dealers. But this was as much a culture clash as a business dispute, with the colorful, rough-edged world of car dealers deeply distrustful of Painter's elite team of technocrats from Santa Monica. One day at a dealer convention, Timmons approached Ziegler, who often wears a baseball hat emblazoned with his nickname, Alpha Dawg, and posts goofy videos of his attempts at rapping on YouTube. Timmons introduced himself and extended his hand in greeting—and Ziegler retorted, "I know who you are," slapped his hand away, and kept walking.

BACK IN therapy, Painter realized that the solution to this mess was staring back at him in the mirror each morning. "Why don't you start with the thing you can affect the most?" his therapist said. "Why don't you go back and tell your wife, whom you love, that you're sorry that you didn't have the empathy to understand that she needed you to be there for her? And that it's all your fault? Why don't you own that and see how that goes?"

Painter did, going into couples therapy with his wife and saying almost those exact words. "Unbelievable!" he recalls. "The clouds parted." His relationship with his wife improved immediately; now he had his first point of refuge in the storm. Next, he decided to try the same approach at work and found miraculous results there, too. "It became very easy to come into work and say, 'You know, it's actually my fault!'" he reports in a surprisingly cheery tone. "It became an almost intoxicating, gratifying thing to just own it."

So he kept at it. Realizing he had not truly paid attention to the concerns of dealers—the lifeblood of his business—he went on a nationwide listening tour, meeting with dealer groups, car manufacturers, and industry media and influencers. "I realized very quickly it didn't matter what I said. As long as I just took the blame for everything, we could get to a better place," he says. "Almost all of these events were like AA meetings: 'My name is Scott Painter, and I have violated all of you, and I want to change.'"

Next, Painter created a council of auto dealers that meets six times a year to tell TrueCar what it's screwing up and what it's doing right. He hired trusted insiders such as Pat Watson of the South Carolina Automobile Dealers Association and John Krafcik, former CEO of Hyundai Motor America. He spent 10 hours traveling to and from Norcross, Georgia, just to meet with Ziegler for a few hours to explain TrueCar's new business model and show him the latest TV ads. They met at an outpost of the Cajun chain Pappadeaux Seafood Kitchen. "I was smirking at the very fact that I had this sprout-eating, preppy-ass Californian sitting in a Cajun restaurant eating spicy deep-fried alligator tails," Ziegler boasted on his blog later. "I even took a photo of Scott Painter wearing my Alpha Dawg hat."

Meanwhile, TrueCar.com scrapped its old slogan—"Know the Real Price"—and replaced it with "Never Overpay." It has stopped showing estimates of how much dealers pay for cars. It no longer encourages dealers to beat the lowest price, instead rating dealer prices as good, average, or above average. The site also gives customers reasons to choose a dealer beyond price, including location and such added services as oil changes, car washes, and delivery. New TV ads talk glowingly about dealers as TrueCar's "trusted partners."

Painter also reformed his company's culture. To drive home the point that TrueCar needed to do a better job balancing the needs

CONTINUED ON PAGE 108 ▶



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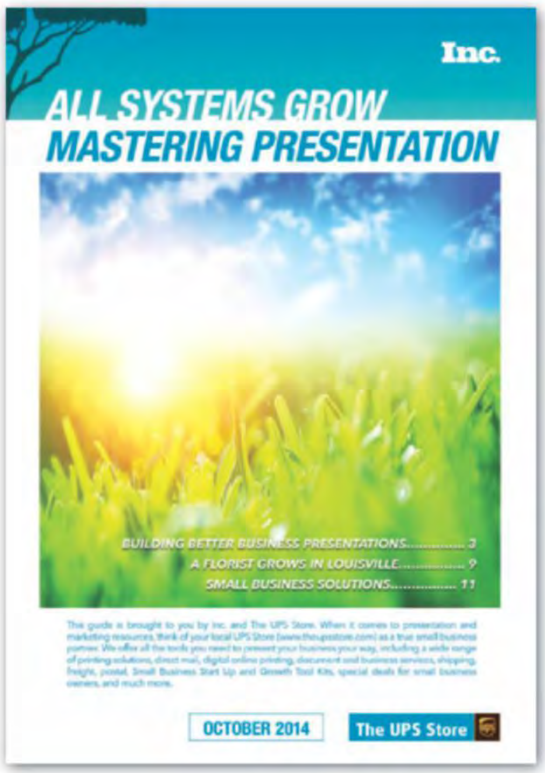
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LAUNCHPAD

Thomas Goetz

Making a Plan to Plan

It's easy to get so busy running a startup that you don't think about its future. The key is making time and space to plan

THIS MORNING, I found myself crunching some data on pharmaceutical prices. But the fact that this was on the top of my to-do list would have been absolutely inconceivable a year ago.

That's part of the fun of startups—there's no such thing as routine. But the constantly shifting sands make it hard to plan for what lies ahead. And planning ahead is among an entrepreneur's most essential responsibilities.

Thinking long term is hard not only because the future is so ambiguous, but also because the here-and-now is so emphatic and conspicuous. In the present, everything *must get done now*. Even when immediate needs have been met, the future remains distant and fuzzy.

Recently, I tried to step back and assess the long-term plan—"long term" meaning two years—for Iodine, my digital health startup. This meant first taking time away from short-term demands. So, basically, I hid in our conference room for two days. It had to be done. I had to know whether we had enough capital to reach some ambitious market targets—but without a long-term plan, I couldn't estimate when those targets might come into view.

Having struggled to make room to plan more than a month in advance, I now struggled to find guidance on how to actually do it. The startup blogosphere and entrepreneur-friendly sites like Quora are full of advice about the importance of planning, but they're thin on details. What I needed was a road map that would help me consider what to plan for, and when and how to plan for it.

Thankfully, I found the Startup Genome Project, an organization that surveyed more than 100,000 companies to assess the common characteristics of successful startups. That project spawned Compass, a service that helps 35,000 businesses benchmark their progress against one another. It's a terrific tool, but it's not right for early-stage companies like Iodine, which lack most standard metrics.

Still, the survey contained a nugget of gold. It identified four discrete stages that most startups pass through: Discovery, Validation, Efficiency, and Scale. I took these and built my own road map, starting with four columns, one for each stage. Then I added rows for the four categories that preoccupy most startup CEOs: People, Product, Market, and Money. This created a grid of boxes. I filled each with four bullet points: Our goal for that category and stage; the challenges we'll face in hitting that goal; the metrics we'll use to track progress; and what resources we'll tap to reach the goal.

A few hours later, I had my road map, making the turbid waters of 2015 and beyond look a little more navigable. Already, this road map is proving essential at Iodine. We are just now moving from the Discovery stage to the Validation stage. That means our central Product challenge will be less about exploration and more about execution.

Another realization has been that we do, in fact, have enough money in the bank to get through the Validation stage. Questions about our business model and revenue will come soon enough, but it's useful to know they should be on the back burner for now.

Lastly, the road map shows that as chaotic as things seem today, they get a lot more complicated tomorrow. We're still in a honeymoon phase—we've built our first product, and now we get to tell the world how great it is. If the world agrees, well, the hard work will just be beginning. But now we can see more clearly how much of it lies ahead.

Thomas Goetz is co-founder and CEO of Iodine, a digital health startup based in San Francisco. He is also author of the book *The Remedy*. Follow him on Twitter: @tgoetz.

SCAN THIS PAGE TO SEE THOMAS'S ROAD MAP AND TO MAKE YOUR OWN. (See page 10 for details.)

CODY PICKENS



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"It's so satisfying getting to know every piece of wood and using these tools people don't know how to use anymore."

–MIKE LAVECCHIA, founder of Grain Surfboards, where customers hew and shape their own wooden boards

PG. 48



PHOTOGRAPH BY **JESSE BURKE**

Tip Sheet

The Post-Artisanal

Expanding any business is challenging. But how do you grow while remaining true to your small-scale, lovingly cultivated roots?

IT'S HARD TO SHAKE a handcrafted, locally sourced stick these days without hitting a new artisanal business. Demand for makers' goods is booming; just look at online crafts marketplace Etsy, which helped artisans sell more than $1.4 billion worth of goods last year. That's more than triple its 2010 sales.

The maker movement has been fueled by a new crop of entrepreneurs set on building their own futures, one carefully crafted product at a time. But expanding these detail-oriented businesses can be particularly tricky, whether you're selling homemade pickles or hipster-friendly denim jackets. Too many small companies promise more than they can deliver and flame out early because they can't meet demand or maintain their quality standards. But some makers have cracked the code on how to scale up while safeguarding their artisanal practices. This is what they've learned.





PICK THE RIGHT PARTNERS

When Caroline Z Hurley got her first big order for her eponymous textiles at a trade show in 2011, she quickly found she wasn't equipped to fulfill it. But a trip to India made her realize that the obvious outsourcing option would have created more problems than it solved: She doesn't repeat patterns or sell enough to meet the large-scale minimums at the factory she visited, making long-distance production pricey and impractical. So Hurley hired a consultant, who eventually led her to a small factory in New Bedford, Massachusetts. The factory is staffed by expert weavers and embroiderers from Guatemala, whom Hurley trained in her textile printing methods. Now she visits New Bedford every three to four months to check on production, and to share the new designs that she creates back in Brooklyn.

KNOW YOUR CAPACITY

AHeirloom became one of the top sellers on Etsy in 2010, after it started selling wooden cutting boards shaped like the 50 states; each board is engraved with small details, like stars to mark individual towns. This customization helped AHeirloom break through—but after its boards made it into *The New York Times* and onto *The Rachel Ray Show*, co-owners and spouses Amy Stringer-Mowat and Bill Mowat realized they were stretched too thin. "Our first Christmas we had to stop taking orders on December 5," says Mowat, who has since streamlined his customization system and created a database of existing designs to save production time. "With the computer script, it takes 10 seconds to lay out 200 orders," he says, "whereas before I drew everything in the drawing software." He's still cautious about selling more than he can make: "Know what you can do, and then stop after that."

TELL A SOCIAL MEDIA STORY

Andrew Livingston and his partners raised $16,000 on Kickstarter to help their menswear startup, Knickerbocker Manufacturing, take

The Success Stories of Artisanal Growth

These businesses started small and worked their way up to national scale

Ursa Major

Roots: After fleeing NYC for Vermont, couple Emily Doyle and Oliver Sweatman developed a men's shaving cream.

Now: Their natural skincare products are carried by 175 vendors.



McClure's Pickles

Roots: The Michigan family started brining in their home kitchen.

Now: They also sell potato chips, relish, and bloody mary mix at Whole Foods and Williams-Sonoma.

SPREAD: CLOCKWISE FROM LEFT: COURTESY COMPANY (2); GRAHAM ROUMIEU; COURTESY COMPANY (2)

Playbook



HAND-HEWN
Textile maker Caroline Z Hurley (left) keeps up with demand for her pillows and linens by outsourcing production to a specialist factory in Massachusetts. Meanwhile, the founders of AHeirloom sped up production of their engraved cutting boards (right) by creating a database of designs.

over the lease of a sewing factory in Queens. That historic factory and its decades-old sewing machines have become a big part of Knickerbocker's social media story; the startup has an in-house photographer and brought in a cinematographer to produce short films, which are promoted on Vimeo, Twitter, and Instagram. Livingston says that social media focus has helped sales and especially Knickerbocker's branding: "We market our process first, then the goods."

SOME BUREAUCRACY CAN HELP

It may be anathema to makers of small-scale crafts, but an official standard operating procedure for all production processes is crucial. Joel Moskowitz, owner of manufacturer and online shop Tools for Working Wood, learned this the hard way. "When you have one person doing an operation and they leave, they take all their knowledge with them," he says. Now the company keeps loose-leaf notebooks and electronic documents with step-by-step instructions for making everything. On the advice of employee Ben Seltzer, Moskowitz is also building an archive of every tool produced, for reference when designing later versions: "We're creating a museum of everything we make." –JOHN PEABODY



TO ETSY, OR NOT TO ETSY?

When starting a handcraft business, many entrepreneurs take to Etsy or eBay to sell their goods—but some choose to go it alone. What to know before selling your designs through a third-party site:

PRO: That's where the customers are.
"It's all about exposure," says AHeirloom's Bill Mowat. "If you're part of a marketplace like Etsy, you know people go there."

CON: Exposure comes at a price.
Etsy charges a 3.5 percent commission on sales; eBay has an intricate fee structure that can include commissions of up to 10 percent per sale.

PRO: More exposure means more breakthrough opportunities.
"We don't have a PR company," says Mowat, who explains that bloggers found his company through Etsy. "One random website on the internet won't be found."

CON: Your brand can get lost in the marketplace crowd.
On portals like Amazon and eBay, "you'll have competition on your page," says Tools for Working Wood's Moskowitz, who built his own website for the company. By selling through these sites, "you make it harder to establish your own brand outside the portals," he adds.

PRO: The Etsy shopper cares.
The site's historical focus on handcrafted goods means that "people really appreciate the connection to the maker," says Mowat.

CON: Expect to be copied.
"The amount of plagiarism and copying that goes on there is huge," says Mowat. "That's why we make stuff that not everyone can make."

Weiss Watch Company

Roots: Los Angeles watchmaker Cameron Weiss started selling analog accessories at age 25.
Now: His watches are in 15 stores, including Barneys New York.



Imogene + Willie

Roots: The designers opened in a Nashville gas station.
Now: They have a second store in Portland, Oregon, and sell products, including denim and pencil cases, through 82 other shops.

Mast Brothers

Roots: The chocolate-obsessed brothers first dried cocoa beans in their Williamsburg, Brooklyn, apartment.
Now: They're opening a third factory in London.

HOW SMART SHOULD YOUR OFFICE BE?

LAST FEBRUARY, Benjamin's Desk, an event space in Philadelphia, hosted a presentation for a tax attorney. Her signature color is shocking pink—and, for the duration of her event, so were the lighting accents in Benjamin's Desk's new superconnected "smart space." Co-founder Michael Maher pulled off that design magic by spending $1,800 on 30 Philips Hue smart light bulbs. At $60 each, the lights used smartphone photos uploaded into an app and calibrated to match the shade of the client's outfit.

That investment quickly paid off: Maher's bookings have gone up 30 percent, and he's now able to charge more per event thanks to the "wow factor," he says.

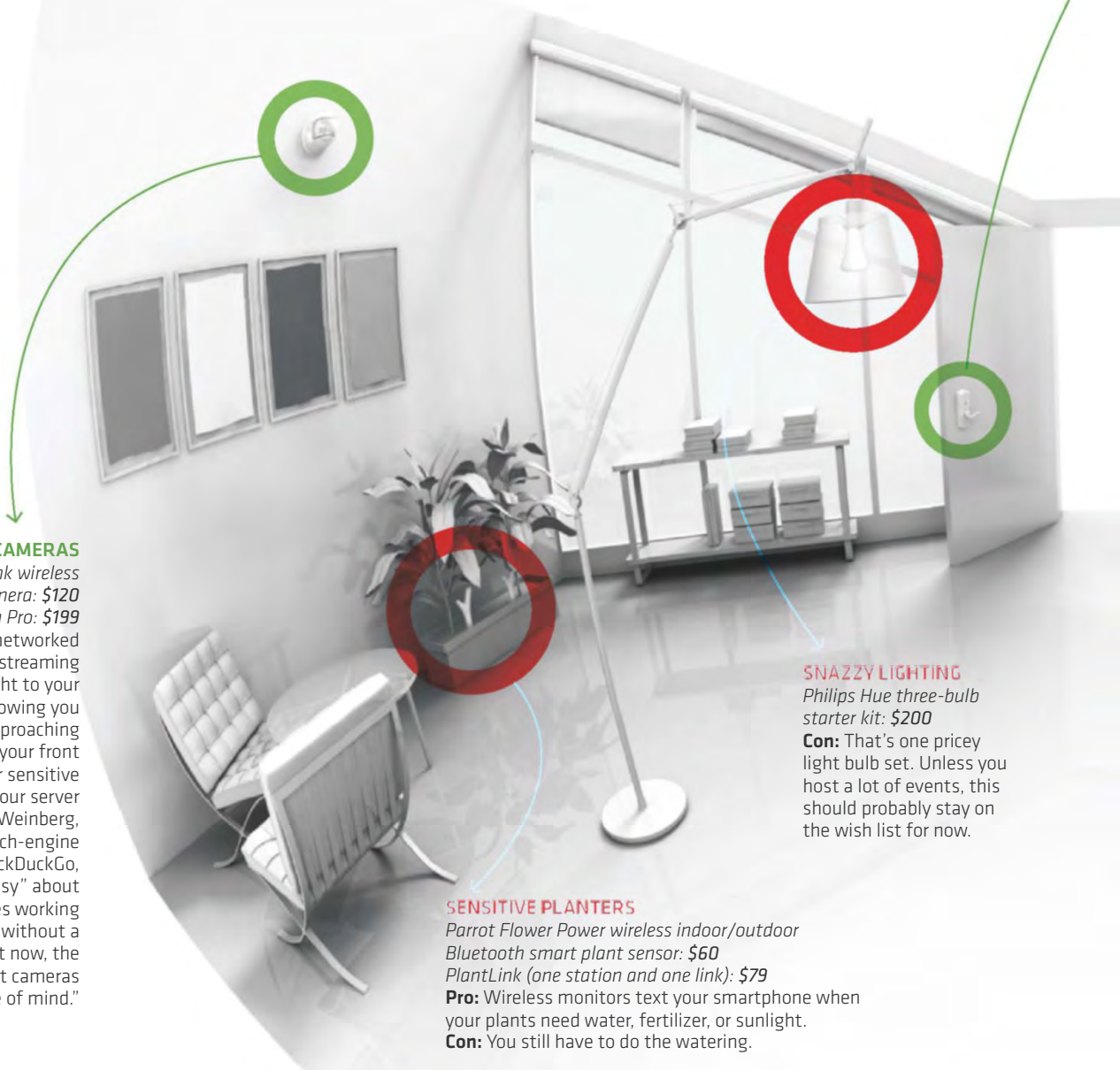
So how much should you spend seeking that wow factor? Maher has invested in several other smart devices to improve office security, save energy, and add pizzazz, connecting them all with a Staples Connect hub ($50) and software designed by startup Zonoff. But it can be hard to tell what's useful versus what's wasteful when it comes to embracing the Internet of Things in the office. Our guide can help you get started. —ROBIN D. SCHATZ

SMART BUY?

MUST HAVE

MAYBE

LUXURY



SECURITY CAMERAS
D-Link wireless camera: $120
Dropcam Pro: $199
Pro: These networked cameras can send streaming video straight to your mobile device, allowing you to see who's approaching and leaving your front door—or other sensitive spaces, like your server room. Gabriel Weinberg, CEO of search-engine startup DuckDuckGo, says he was "uneasy" about his employees working at odd hours without a receptionist. But now, the company's smart cameras "give us peace of mind."

SNAZZY LIGHTING
Philips Hue three-bulb starter kit: $200
Con: That's one pricey light bulb set. Unless you host a lot of events, this should probably stay on the wish list for now.

SENSITIVE PLANTERS
Parrot Flower Power wireless indoor/outdoor Bluetooth smart plant sensor: $60
PlantLink (one station and one link): $79
Pro: Wireless monitors text your smartphone when your plants need water, fertilizer, or sunlight.
Con: You still have to do the watering.

ILLUSTRATION BY **BRYAN CHRISTIE DESIGN**

LOCKS

*Kwikset Z-Wave smart door lock: **$200***
*Yale Real Living push button deadbolt: **$200***
*Schlage Z-Wave home keypad lever: **$200***
Pro: Never worry about losing your keys or rushing to change your locks when an employee leaves abruptly. Instead, just update your key codes on your smartphone.

CLIMATE CONTROL

*Honeywell Z-Wave enabled programmable thermostat: **$150***
Pro: Program your office's thermostats for the nights and weekends, so you're not air-conditioning or heating empty cubicles. Maher of Benjamin's Desk estimates that his five smart thermostats, which cost about $1,000 total, save him up to $2,400 in yearly energy bills.

WINDOW SHADES

*Lutron Serena shades: **$399 to $1,533**, depending on type and window size*
Pro: Reduce energy costs by programming your shades to move with the sun.
Con: It's not that hard to lower the blinds.

DOORBELL

*DoorBot: **$199***
Pro: See and talk to delivery drivers or other visitors via your smartphone—even if you're not at the office.
Con: The "glitchy" device needs better video quality, per online reviews.

MOTION SENSORS

*Ecolink wireless motion detector: **$50***
Pro: Program your lights to turn on and off when people enter and leave, and have the system alert you when someone's entered the office.
Con: Good for security and saving energy, but may be overkill for convenience.

EVERYDAY LIGHTING

*Lutron Caseta wireless dimmer kit: **$60***
*Leviton Vizia RF+ light switch: **$85***
Pro: Dim and control lighting from your smartphone, or program the lights to turn off automatically at a designated time. If you've got a smart lock, you can link the lights so they turn on when the door opens.
Con: It's hard to beat the simplicity of the basic light switch.

WATER GAUGES

*Aotec water sensor: **$35***
Pro: Check the water levels on your fish tank—or get notified of leaks and floods in your office. Those flood alerts can be crucial, and they make this sensor one of the most popular smart-office gadgets sold by Staples.
Con: Location matters: It senses floods only if it actually touches the water.

CONFERENCE ROOM RESERVATIONS

*Robin's presence-sensing software: Averages about **$25** per room plus Bluetooth beacon **($5 to $30)***
Pro: Robin, a startup that specializes in smart-office software, seeks to automate conference room reservations. As soon as you walk into a meeting room, Robin's software will recognize your phone and book the room on the spot. CEO Sam Dunn says the program will soon also be able to tee up your PowerPoint presentation on a projector the moment you enter.
Con: Do you *really* need an app to book the room you're already in?

Sources: Robin, DuckDuckGo, Zonoff, Staples, Benjamin's Desk

PURE MICHIGAN

Michigan: **In a State of Sustained Growth**

If globalization has taught us anything, it is that location matters. Easy access to capital, suppliers, logistics, skilled labor and innovation has become essential criteria in choosing where to locate a company's operations. The *Michigan Growth Census*, prepared by Build/Inc., found that two-thirds of the state's sustained growers—companies with net job growth in the past five years—are located in five metropolitan areas (see "Hometowns with an Advantage" below). But that's not the whole story. These exceptional companies are found in every urban area across Michigan, as well as small towns and rural areas.

Caption: Two-thirds of all sustained growers are located in just five regions. However, they are also found in every urban area across Michigan. There are also 200 of these exceptional companies located in small towns and rural areas.

Hometowns with an Advantage

By Number

CBSA (Core Based Statistical Area)	Sustained Growers	Concentration Quotient
Warren-Troy-Farmington Hills	1,050	1.1
Detroit-Livonia-Dearborn	507	1.2
Grand Rapids	292	1.2
Rural (non-CBSA)	200	0.6
Flint	149	1.2
Lansing-East Lansing	146	1.0
Ann Arbor	139	1.2
Kalamazoo-Portage	117	1.1
Holland-Grand Haven	91	1.1
Traverse City	71	0.9
Saginaw-Saginaw Township North	56	0.9
Battle Creek	46	1.1
Jackson	46	0.9
Niles-Benton Harbor	46	0.7
Allegan	41	1.0
Muskegon-Norton Shores	41	0.8
Monroe	36	0.8
Midland	24	0.8
Adrian	23	0.6
Bay City	22	0.6
Owosso	17	0.7
Sturgis	17	0.7
Mount Pleasant	16	0.8
Alpena	13	1.0
Coldwater	12	0.8
Marquette	12	0.6
Big Rapids	10	0.8
Cadillac	10	0.5
Iron Mountain	9	1.0
Houghton	9	0.8
South Bend	8	0.4
Marinette	7	1.0
Escanaba	7	0.5
Sault Ste. Marie	7	0.5
Alma	7	0.4
Totals	3,304	na
Average	94	0.8

By Relative Concentration

CBSA (Core Based Statistical Area)	Sustained Growers	Concentration Quotient
Detroit-Livonia-Dearborn	507	1.2
Flint	149	1.2
Grand Rapids	292	1.2
Ann Arbor	139	1.2
Warren-Troy-Farmington Hills	1,050	1.1
Holland-Grand Haven	91	1.1
Kalamazoo-Portage	117	1.1
Battle Creek	46	1.1
Allegan	41	1.0
Alpena	13	1.0
Iron Mountain	9	1.0
Marinette	7	1.0
Lansing-East Lansing	146	1.0
Jackson	46	0.9
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Monroe	36	0.8
Mount Pleasant	16	0.8
Coldwater	12	0.8
Muskegon-Norton Shores	41	0.8
Midland	24	0.8
Big Rapids	10	0.8
Houghton	9	0.8
Owosso	17	0.7
Sturgis	17	0.7
Niles-Benton Harbor	46	0.7
Adrian	23	0.6
Rural (non-CBSA)	200	0.6
Bay City	22	0.6
Marquette	12	0.6
Cadillac	10	0.5
Escanaba	7	0.5
Sault Ste. Marie	7	0.5
South Bend	8	0.4
Alma	7	0.4
Totals	3,304	na
Average	94	0.8

"We're seeing success all around the state, but we don't want to rest on our laurels," says Mike Finney, president and CEO of the Michigan Economic Development Corporation (MEDC), a public-private partnership dedicated to business and job growth. "We're continuing to provide support with innovative programs to help businesses get the support they need." Primary among these is the Michigan Business Development Program (MBDP), which provides grants, loans and other economic assistance to businesses that create jobs and provide private investment. MBDP success stories include Newell Rubbermaid, which recently relocated its design functions to Kalamazoo, and Rassini Brakes, which is reshoring production from Mexico with a new facility in Flint.

An urban renewal

While sustained-growth companies are found throughout the state, a few metropolitan areas stand out with not only the highest number of sustained growers, but also the greatest concentration of such companies as related to the average. These include Detroit and its northern and western suburbs, Troy and Farmington Hills, which are benefiting from the dramatic automotive turnaround and a coordinated strategy to integrate manufacturers, suppliers and the R&D community; nearby Ann Arbor, home to the state's venture capital community and the University of Michigan; and Grand Rapids, recently ranked by *Forbes* as the best U.S. city to raise a family.

Getting smart

Michigan's 15 SmartZones provide distinct geographical locations where technology-based firms, entrepreneurs and researchers can tap expertise and create collaborations with universities, industry, research organizations, government and other institutions, as well as tech business accelerators.

Another innovative MEDC program, Redevelopment-Ready Communities, promotes effective redevelopment strategies statewide through a set of best practices that integrate transparency, predictability and efficiency. These communities—cities such as Allegan and Roseville—have shown that they have a vision for the future and the fundamental practices in place to get there.

For Finney, the goal of these efforts is to ensure that the state as a whole provides fertile soil for economic growth. "We want to let people know that there are opportunities and resources—from cutting-edge research to supply chain access to top talent—in communities throughout Michigan."

To learn more about how the MEDC helps small and mid-sized companies grow and thrive, check out all the available resources at the Pure Michigan site, www.michiganbusiness.org. or call 888-522-0103.

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GRAIN SURFBOARDS

PRODUCT: Wooden surfboards
TIME TO BUILD: 4 days or 7 days
COST: $1,500 to $1,700

Surfers talk about their sport as a transcendent experience. At Grain, in York, Maine, building your own surfboard from native wood is just as exhilarating. "It's so satisfying getting to know every piece of wood and using these tools people don't know how to use anymore," says founder Mike LaVecchia. "Coming away with the product is icing on the cake."

Building your own board costs several hundred dollars less than having Grain build one for you. Customers meet in a daily class that includes a big breakfast and a "chalk talk," when instructors explain the steps to be completed that day. Then it's off to the workshop for a demonstration, after which everyone works on his or her own. Two instructors circulate. "We get a wide variety of people coming for classes," says LaVecchia. "People will come with their families and do it while the spouse and kids go to the beach."

Photograph by **JESSE BURKE**

IF YOU (LET THEM) BUILD IT, THEY WILL COME

Souped-up racecars. Cyclist-designed bikes. Hand-carved furniture. Why is some unlikely manufacturing being turned over to these companies' customers? By **LEIGH BUCHANAN**



SURF AND SAND Grain customers Patrick O'Toole (front left) and Ryan Mungerwork plane their own hollow-core, all-wood surfboards.

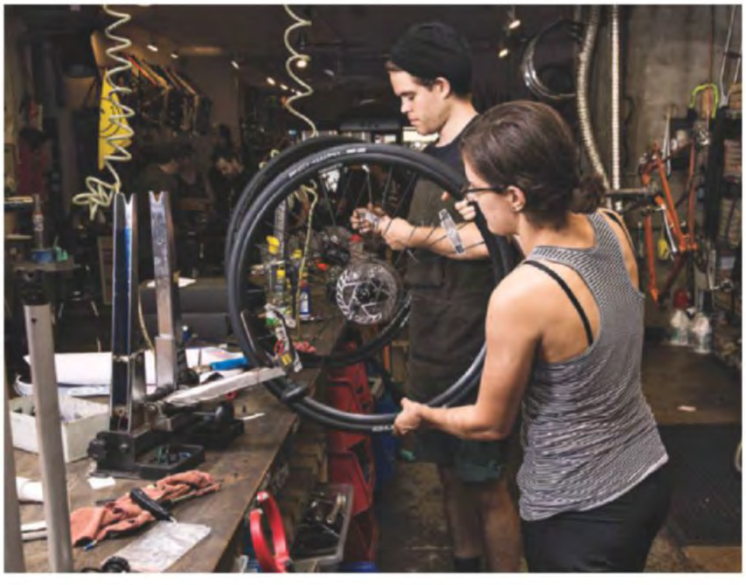
SEVERAL TIMES a year, in a high-ceilinged workroom in Maine, Thos. Moser Cabinetmakers hosts the DIY equivalent of a yearbook signing session. Employees in T-shirts and jeans heft tables, chairs, and dressers onto platforms and turn them upside down or onto their sides. With felt-tips, the customers who built the pieces inscribe their names on the bottoms or insides. Then the woodworkers who assisted them sign as well. Spouses and children crowd around to watch. Sometimes there are tears.

The signing ceremony culminates each weeklong installment of Thos. Moser's customer-in-residence program, a part of a niche movement of consumers building what they buy. While some companies allow customers to design products online, most such goods are still put together by professionals. But a few businesses are starting to invite customers deeper into the manufacturing process. It may not create rapid growth, but it can increase loyalty. Working side by side with employees to sand down a surfboard or lay brake lines in a car, customers develop personal relationships with these businesses, based not just on the pleasure that comes from owning a beautiful product, but also on the pride they take in having built something with their own hands.

Competitors argue that people who can do something themselves won't pay for it. But advocates say customers are looking for an experience, not an extended pursuit. "To invite customers in to shape the product they will ultimately own is the highest level of respect," says John Gerzema, CEO of BAV Consulting.

Customer builds have long been common in the crafts and food industries, where DIYers spend a few hours making pottery or decorating cakes. But theoretically, any business that doesn't rely on hazardous materials or dangerous machinery can open up some part of the production process to customers. These are a few that have done so particularly well.









718 CYCLERY

PRODUCT: Bicycles
TIME TO BUILD: 2 to 3 hours
COST: $1,000 to $1,500

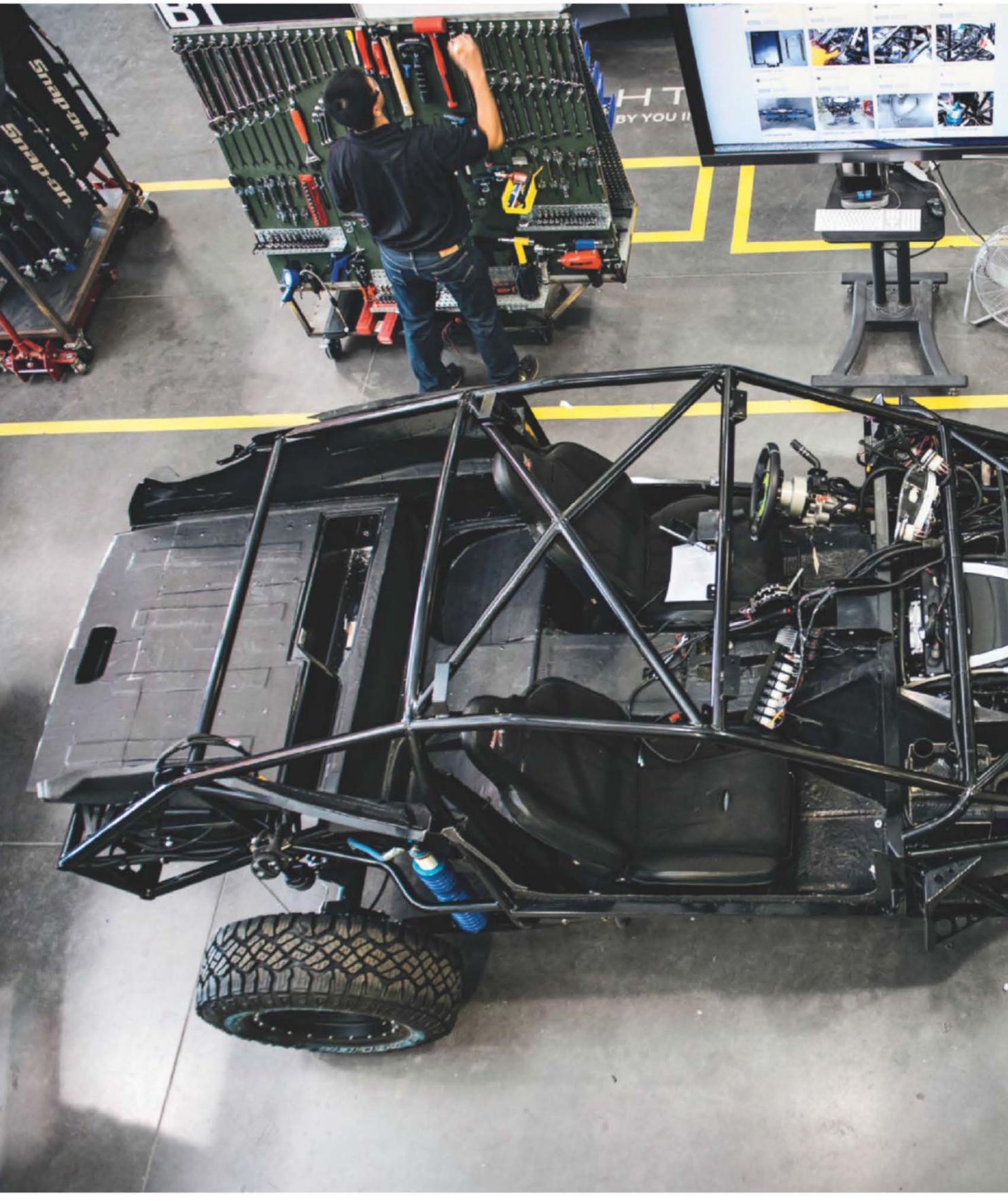
718 Cyclery founder Joseph Nocella calls his business an "inverted bike shop." While "in most bike shops the work is done behind a curtain or downstairs, we'd rather invite people into the process," says Nocella, who opened 718 Cyclery six years ago in Brooklyn. "There are 200 bike shops in New York City, and we don't compete with any of them."

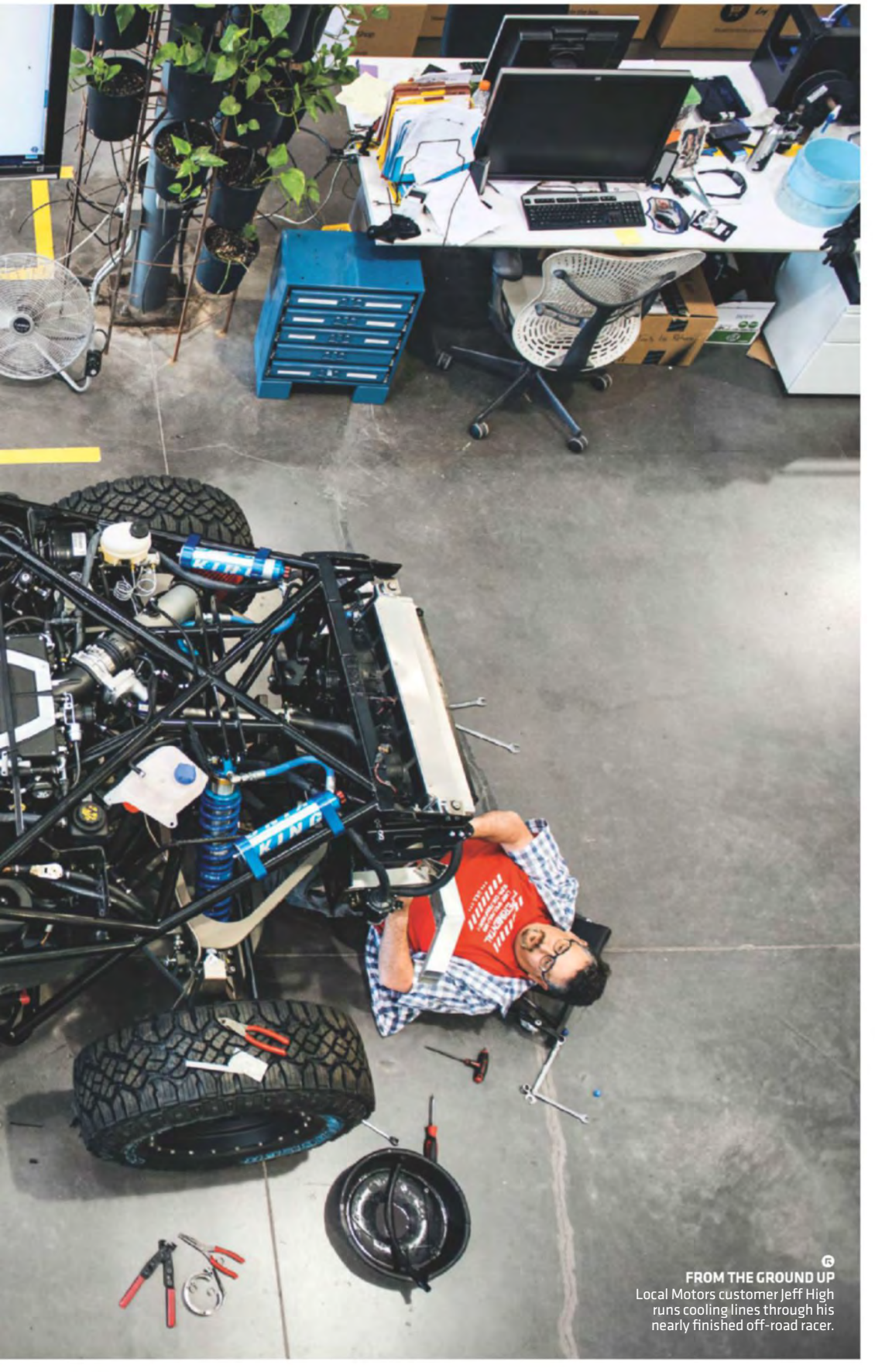
718 Cyclery does sell preassembled bikes, but fewer than 25 percent of customers buy them that way. For the rest, the purchase begins with an in-shop consultation. Once Nocella understands how the bike "will fit into their life," he presents a design and a detailed parts list for the customer to weigh in on. That can take minutes—or months. But when the customers are ready to schedule their builds, Nocella says, "all the parts are purchased and laid out on a table as in an operating room. They work with a mechanic, and they can do as much or as little as they want. We are the project managers of their project."

Photographs by **EMILIANO GRANADO**



BESPOKE BIKES
At 718 Cyclery in Brooklyn, customer Daniela Marquez adjusts wheels and wields a hacksaw to assemble her ideal bike.


Snap-on
Snap-on



FROM THE GROUND UP
Local Motors customer Jeff High runs cooling lines through his nearly finished off-road racer.

LOCAL MOTORS

PRODUCTS: Off-road racecars and high-speed motorcycles
TIME TO BUILD: 5 to 6 days
COST: $100,000 (airfare not included)

Local Motors launched its first model, a sexy beast of a car called the Rally Fighter, in 2010. Like all the company's products, it was designed by an online collaboration of auto enthusiasts and engineers. Local Motors, based in Chandler, Arizona, has sold more than 70 of the Fighters, most built by the folks who bought them. (And who have a spare six figures to spend on a car they can't get at a luxury dealership.)

Production takes place in one of the company's three "microfactories": 7,000-square-foot plants that are easily reconfigurable because they lack the heavy machinery and conveyor belts of mass manufacturing. Customers work with hand tools, assisted by a trainer and following instructions delivered by video. Trainers time progress so that each day ends on a high note: turning over the engine for the first time, or flipping on the lights. "There's this oh-my-god moment when you're standing in front of a bare chassis and this wall of parts," says co-founder John B. Rogers Jr. "The trainer says, 'Let's get going.' And you turn the car onto its side and start to lay the gas lines."

Photograph by
DAVE LAURIDSEN

THOS. MOSER CABINETMAKERS

PRODUCT: Wood furniture
TIME TO BUILD: One week
COST: $6,300 to $14,000, including food and lodging for up to two people

Roughly 40 people each year make the pilgrimage to Freeport, Maine, for Thos. Moser's customer-in-residence program. The process begins with a phone consultation about the piece to be built: a sleigh bed, a bureau, a table. Then Steve Wyman, who runs the program, arranges to free up five cabinetmakers for the week. When customers arrive on Monday morning, each is introduced to a dedicated cabinetmaker, and the two visit the woodpile to choose materials.

The program breaks even at best, but the company benefits from positive customer relationships and word of mouth. The sessions also raise staff morale. "Our cabinetmakers love working with people and being able to pass along this craft they care so much about," Wyman says.

Photographs by **CHRISTOPHER CHURCHILL**



HAND-FINISHED
Austin Whitman spends his stay at the Thos. Moser customer-in-residence program building two pieces of furniture—a nightstand and a side table.







WHEN CUSTOMERS BUILD THEIR OWN...

LET THEM DO MORE—OR LESS
Although a large majority of 718 Cyclery's customers do some work on their bikes, many don't put together the whole thing. For designs that take more than a week to build, Thos. Moser offers to do some work up front or to finish off the pieces.

OFFER MANY CHOICES
Thos. Moser lets customers build any piece of furniture in its catalog. At 718 Cyclery, customers work with the shop to design their own bikes from the ground up.

PROTECT YOURSELF
Local Motors requires customers to sign liability waivers. It negotiated long and hard with its insurance company to get the right coverage.

CREATE A COMMUNITY
Grain kicks off each build day with a big communal breakfast. At day's end, staff and students hit the waves, and sometimes sit down for a barbecue.

CELEBRATE MILESTONES
At Local Motors, customers mark the end of each day with a show of achievement—for example, by turning on the engine for the first time. The week at Thos. Moser concludes with a ceremony in which the customers and everyone who helped them sign the finished piece.



MADE SMART

Mark Dwight

Who Cares Where Our Products Are Made?

I do. But it's about pride in what we do, not about protectionism

I PROUDLY ADD the "Made in USA" label to every product I manufacture in my San Francisco factory. Making bags in this country is fundamentally important to me and to my company—but maybe not for the reasons you think.

Here at Rickshaw Bagworks, making our own products is a celebration of our passion for making things, not a protest of outsourcing or offshoring. I'm not a protectionist, and I'm not a Made-in-America zealot. We live in the modern global economy—I get it. In fact, my original plan was to import partially made bags from China and do only the final assembly in our shop.

But, alas, I'm a stubborn maker at heart. We soon found ourselves designing products that we could produce from scratch in our own factory—and getting great feedback from our customers for our made-in-San-Francisco goods. So we were encouraged to let our manufacturing story be our key point of differentiation: We don't just design what we sell, we *make* what we sell.

That's always been my true love. When I was in high school, I took wood and metal shop classes, and I started my own stained glass business, crafting windows, lampshades, and terrariums for friends of my parents'. Then I headed off to college, got a degree in engineering, and started working in Silicon Valley. My crafting days were over—or so it seemed. Twenty years later, I happened into the bag-making business and reconnected with my dormant passion for making things. As fate would have it, that happened at a time and in a place particularly challenging for makers—but also full of opportunity.

We live in an age when production is more often than not outsourced to anonymous contract manufacturers, predominantly in low-cost labor markets. There are good reasons for that, as well as some horrific and well-publicized downsides. Though economies of scale and low-cost labor have yielded tremendous cost savings for consumers, it seems we may be approaching the limits of this business model, especially after factory disasters abroad have focused more attention on the poor working conditions and environmental impact of these practices. There is a small but growing group of "conscious consumers," who care about the *who*, *what*, *why*, *where*, and *how* behind the products they buy. These customers want to connect with the companies they purchase goods from, and share their enthusiasm with others like themselves.

So, does it really matter where it's made? Yes, and no. I believe it's less about specifically where we manufacture—though San Francisco has fabulous geographic cachet—than about the fact that we make our own products, in our own factory, under our own brand name. It's about connection and accountability—knowing and dealing directly with the maker and trusting the brand. Here at Rickshaw, we design and make what we sell. We own it. The buck starts and stops right here. Making what we sell is our primary differentiator. "Made in USA" is the *where* of our brand story.

As a conscious consumer myself, I'm concerned about the environmental and social justice issues that come with manufacturing in less-developed, poorly regulated countries. As a maker, I'm optimistic that there's a promising future for small-scale, innovative, specialty manufacturing in America. In my bags, those "Made in USA" labels are shorthand for "quality products, made with integrity by a company that's accountable and that cares for its employees, customers, business partners, and community, and for our shared planet."

This is not something that's exclusively American. Nor is it universally American. But I like to think it's fundamentally American.

Mark Dwight is the founder of Rickshaw Bagworks, a San Francisco maker of custom bags, and SFMade, a nonprofit focused on building the city's manufacturing sector.

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KNOW HOW

THE BEST WAYS TO USE SOCIAL MEDIA, TRAVEL WITHOUT TEARS, RAISE MONEY, RECAPTURE THAT NEW-COMPANY FEELING, AND MUCH MORE—FROM PEOPLE WHO DO IT BETTER THAN ANYONE ELSE

PG. 68



KEVIN MAZUR/WIREIMAGE

A STAR IS TWEETED
Brian Scully's social media strategy helped make Lady Gaga huge. Read his tips, page 82.

Advisory Boards Make It Less Lonely at the Top
PG.60

All Is Flex: Benefits That Workers Really Like
PG.64

Tip Sheet

COLLECTIVE WISDOM

Assembling a board of advisers may be the best move you haven't made yet

AFTER NINE YEARS in operation, Lisa Gleeson was ready to expand Lisa's Gift Wrappers, her Royal Oak, Michigan, gift-wrapping business. But when she bounced the idea of opening a new store off a few members of her "brain trust," the loosely affiliated network of seven business professionals who act as her board of advisers, they told her to forget it. "They said I wouldn't be able to sustain the expense for the two years it would take to establish the new outlet," Gleeson recalls.

Grudgingly, she opted instead to open two pop-up locations during last year's holiday shopping season. That proved to be the right approach, she says, in part because one of those pop-ups was in the very spot she had thought about expanding to, and it did poorly. Her advisers had saved her from herself.

WHY GO IT ALONE?

Tapping into supplementary expertise would seem to be a no-brainer, but entrepreneurs vary greatly in their willingness to seek advice. Though nearly 30 percent talk to fellow business owners when mulling an important decision, almost a quarter of small-business owners seek no outside counsel of any kind, even about accounting, tax, and legal issues. That's crazy, says advisory-board fan Ryan Smith, co-founder and CEO of Qualtrics, a Provo, Utah–based company that makes surveying equipment and provides related services. "An advisory board can save you years of hard work," he says. "When you're running a fast-paced business, you need people who can give immediate advice about important decisions you have to make."

Even long-established companies can benefit from the specialized knowledge advisers can provide. Aaron Young, CEO of Laughlin Associates, a Reno, Nevada–based business services firm, says, "Our company is 42 years old, with a lot of tenure among our employees. That can lend itself to our not always having the freshest ideas or latest skills. Recently an adviser showed me a way to measure our website traffic against that of our competitors. I thought I knew about analytics, but in 15 minutes I learned more about that aspect of the business than I had in 10 years."

GETTING IT TOGETHER

Boards of advisers can take a number of forms. Gleeson recruited experts from different disciplines: an accountant, a publicist, a website designer, a business coach, a writer, a branding expert, and her two sisters, one who teaches marketing and the other who works in commercial banking. Young followed a similar path, reaching out to people with expertise in marketing, events, and public speaking, "because these advisers' track records and skills are beyond where our staff is right now."

Another approach is to assemble a team of entrepreneurial peers who have grown their companies successfully, or to even reach out to execs at very large companies—if you are confident they have the time and relevant expertise. Perhaps the most common approach, however, is to rely on family and friends, which can work if they're involved in the business or have their own fields of expertise, but which may prevent you from getting the objective perspective—and honesty—you need.

Craig O'Neal, president and CEO of VantagePoint Marketing in Greenville, South Carolina, says a "try before you buy" approach works well: Develop relationships with potential advisers first, by seeking their counsel informally. "I am very deliberate about trying to understand how someone works and thinks," he says. "I want to feel confident about them before asking them to serve on my board."

Recruitment is just the start, however. "Remember that your advisers will only be as good as your ability to continually engage and energize them," says Panos Panay, founding managing director of the Berklee Institute for Creative Entrepreneurship at Berklee College of Music. "An advisory board requires work on your part. Unless you put in the time and effort, your advisers will end up just being names on a business plan."
—RANDY MYERS



Whom Do You Turn To?

When 750 small business owners were asked whom they trust when making important decisions about their companies, they revealed a strong bias toward going it (nearly) alone.

67
PERCENT SAID A SINGLE CONFIDANTE SERVES AS THEIR GO-TO SOURCE FOR ADVICE

ROAD SIGN: GETTY; ILLUSTRATION: AAD GOUDAPPEL; ICONS: JOCELYN ALTHAUS/KELL. KELI SCOTT; DATA SOURCE: NFIB, GOLDMAN SACHS



HOW TO GET THE MOST FROM YOUR BOARD

Three tips for managing expectations (and avoiding disappointments)

GET IT IN WRITING

A simple memo explaining what it means to be on your board can protect you and your advisers, says attorney Douglas S. Brown, associate faculty member of the online MBA program at the Malcolm Baldrige School of Business at Post University and executive director of the Connecticut Bar Association. Among other things, make clear that all business decisions are yours and that you won't hold advisers responsible for their advice. Nondisclosure agreements are also a good idea, says David Scarola, vice president of the Alternative Board, which helps business owners across the world set up peer boards. "Board members can't give full value if you aren't comfortable sharing all the information that they need."

GO LONG

When reaching out to potential advisers, leave yourself an out: Sign them up for a year of service, renewable at your discretion. That said, you really want keepers. "In terms of stability versus new blood, stability is more important," says Scarola. "Every group goes through a life cycle: They assemble, then brainstorm, and then settle into a norm on how best to work together. Once your team has gone through this cycle, try to keep it together as long as possible."

SAY THANKS

You don't have to compensate your advisers, but you can. Stipends or small shares of equity are common. Gleeson of Lisa's Gift Wrappers gives personal gifts, presumably in dazzling packages.

59 **PERCENT** OF THOSE WHO RELY ON A SINGLE CONFIDANTE SAID THAT PERSON IS AN IMMEDIATE FAMILY MEMBER

47 **PERCENT** DID NOT SEEK ADVICE ABOUT THE PRIOR YEAR'S MOST IMPORTANT BUSINESS DECISION

40 **PERCENT** DID SEEK ADVICE FROM A FELLOW BUSINESS OWNER IN THE PAST 12 MONTHS

22 **PERCENT** OF THOSE WHO DON'T SEEK OUTSIDE ADVICE CITED PRIVACY AS THE PRIMARY REASON

16 **PERCENT** SAID THEIR BUSINESS HAS A FORMAL BOARD OF DIRECTORS

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PERKS THAT WORK

YOU KNOW THAT AT LEAST SOME OF YOUR EMPLOYEES want to work from home. But do you know how important it is to their satisfaction and productivity? As flexible work options have become more common in recent years, many companies are finding out, with one survey of more than 1,000 companies showing that small businesses consistently provide flexibility at higher levels than their largest counterparts (the authors left out medium-size firms, but maintain that they fall in between). Giving employees the flexibility they crave, it turns out, is not at all hard to do—the improved company performance that comes with having a satisfied work force sees to that. – *SCOTT LEIBS, INFOGRAPHIC BY KISS ME I'M POLISH*



FLEXIBILITY AT A GLANCE

Most companies now make some flexible work policies available to all or most of their workers. Consistently, however, small firms offer them more often.

SMALL EMPLOYER 50–99 employees
LARGE EMPLOYER 1,000+ employees



FLEXIBLE STARTING AND QUITTING TIMES
33% / 20%

PAID TIME OFF FOR FAMILY OR PERSONAL NEEDS
52% / 36%

OPTION TO WORK LONGER HOURS ON FEWER DAYS
14% / 5%

CHOICE OF WHETHER OR NOT TO WORK OVERTIME
26% / 15%



CAN WORK FROM HOME ON OCCASION
11% / 4%

CONTROL OVER WHEN TO TAKE BREAKS
66% / 52%

CAN WORK FROM HOME REGULARLY
4% / 2%

MAY GRADUALLY RETURN AFTER CHILDBIRTH OR ADOPTION
53% / 37%

FLEXIBILITY GAINS GROUND

From 2008 to 2014, most forms of flexible work arrangements for at least some employees became more common.

2008 **2014**



FLEXIBLE STARTING AND QUITTING TIMES

OPTION TO WORK LONGER HOURS ON FEWER DAYS

CAN WORK FROM HOME ON OCCASION

CAN WORK FROM HOME REGULARLY

ISTOCK (4). DATA SOURCES: WORLDATWORK (THAT FEEL-GOOD FEELING), REDS GROUP (THE RETENTION ADVANTAGE), FAMILY AND WORK INSTITUTE'S 2014 NATIONAL STUDY OF EMPLOYERS (ALL OTHERS)

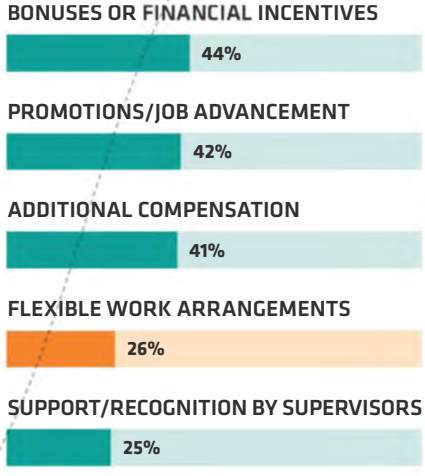
SMALLER COMPANIES GIVE THE BIGGEST THUMBS UP

When employees were asked whether they think that more flexible work options make their company more productive, small business employees were slightly more likely to say yes.



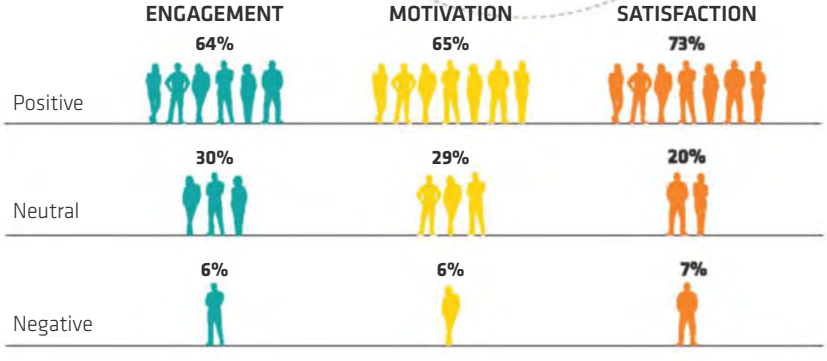
THE RETENTION ADVANTAGE

Below, how employees answered when asked "What would keep you with your current employer?" While not as important as money, flexibility does help keep some workers happy.



THAT FEEL-GOOD FEELING

The graph below depicts senior managers' responses to the question "What would your work force say is the effect of your organization's flexibility programs on..." Overwhelmingly, flexibility is seen as a plus.



95% of Millennials say that work-life balance is important to them.

46% of employees say that flexible options that support work-life balance are important to their job satisfaction.

9% of companies say their personnel or practices sometimes stand in the way of workplace flexibility.



PAID TIME OFF FOR FAMILY OR PERSONAL NEEDS

CHOICE OF WHETHER OR NOT TO WORK OVERTIME

CONTROL OVER WHEN TO TAKE BREAKS

MAY GRADUALLY RETURN AFTER CHILDBIRTH OR ADOPTION

Office Space That Really Pays

Three ways to get the most bang for your buck

THERE'S A LOT TO CONSIDER when you're designing new office space, and you should make sure that productivity is high on your list. Cornell University's Ergonomics Laboratory has found, for example, that small investments in ergonomic features can boost a company's productivity by an average of 12 percent. Other studies have found that temperature, lighting, and even the imagery you have on your walls may all affect productivity. When my company recently doubled our office space, we first created a financial plan, one that helped us see where it made sense to be frugal and where more sizable investments would pay off. This is what we've learned.



ROOM WITH A VIEWPOINT
LearnVest invested in office design that reinforces (and broadcasts) its culture.

1

HELLO, IKEA!

While the legendarily affordable retailer may not seem like the go-to source for grownup office needs, its products provide a lot of versatility for little money.

- We bought glass tabletops and mounted them on the walls of the conference rooms to create massive "whiteboards," a much sleeker and cheaper alternative to the standard office product.
- Plain black shelving units are inexpensive, and they can be easily jazzed up with a quick coat of spray paint. We went with gold to brighten up our wall-to-wall units and create a more polished look.
- We found that countertops could be used to create desk space, leaving more money in the budget to invest in high-quality chairs, which is where comfort really counts. Our design firm, Homepolish, helped identify many such opportunities.

2

SPLURGE SELECTIVELY

We favored things that enhance collaboration.

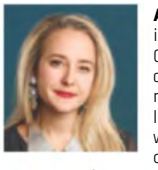
- Our team is split between our New York City headquarters and an Arizona office. To encourage constant communication, we installed large TVs in both offices that carry a nonstop interoffice live stream.
- We blocked off a significant amount of space for communal tables that allow small teams to meet without the hassle of booking a conference room. We made this move after analyzing our meetings and realizing that about 70 percent of them involve only two or three people.
- We invested in wall-to-wall carpeting and acoustical tiles to better control sound. Collaboration is essential, but noise should never become a distraction.

3

LOUD AND PROUD

Your office space should convey your company's values and reinforce a spirit of collaboration.

- We let the team decide what to name our conference rooms, and everyone had fun with it. One floor features famous rockers (including "Benatar" and "Joplin") and another highlights business trailblazers ("Bezos" and "Winfrey").
- Our core values of trust, innovation, passion, and empowerment are literally emblazoned on our walls, captured in such phrases as "Feel amazing about your money," "Build better habits," and "Achieve your goals." These visual cues look great and continuously remind us of our mission. They motivate us to tackle each day head-on.



Alexa von Tobel is the founder and CEO of LearnVest.com, a financial-management and lifestyle website. She was recently named one of *Fortune*'s Most Powerful Women Entrepreneurs and has been highlighted in *Inc.*'s 30 Under 30 list of cool young entrepreneurs.

FROM TOP: COURTESY HOMEPOLISH; DINA KANTOR



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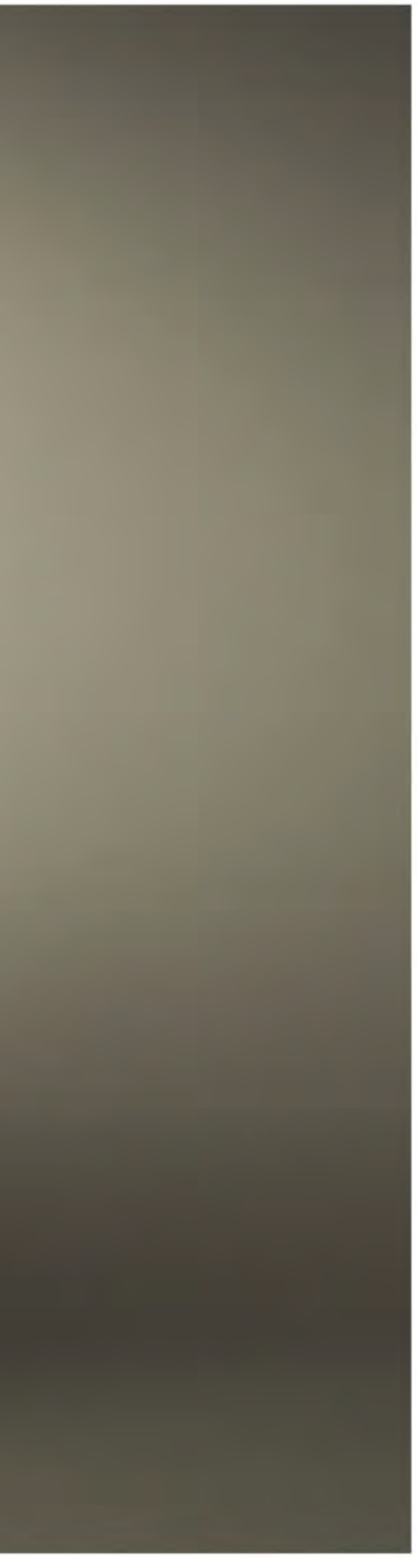
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STAR TURN
Now that her Honest Company has proved to be a smash hit, Jessica Alba can add "successful entrepreneur" to her already-formidable list of credits.

Photograph by **JUSTIN STEPHENS**



KNOW HOW

GET ENERGIZED. WORK SMARTER. BRAINSTORM BIGGER. WIN ON *SHARK TANK*. AND MUCH MORE THAT WILL MAKE YOU A BETTER ENTREPRENEUR

HOW TO

PROVE YOUR DOUBTERS WRONG

WHEN ACTRESS JESSICA ALBA *first conceived her idea to launch a line of nontoxic household and baby products in 2008, skeptics tried to push her toward the same tried and true starlet formula: Why not just be the face of a new perfume? A few years later, she has a pretty good answer. The Honest Company is expected to pull in more than $150 million in revenue in 2014, has a reported $1 billion valuation, and is poised to go public. Take that, Hollywood.*

I FOUNDED THE HONEST COMPANY on this idea: Everything that touches you and your family—everything in your home—needs to be nontoxic, needs to be effective and beautiful to look at, and needs to be affordable. I really wanted it to have an e-commerce model. What are the things that all parents need? Diapers and wipes, for sure. And then a mix of cleaning and personal care products. Wouldn't it be great if you could pick five things and get them delivered through a monthly subscription?

Everyone I approached was skeptical. There wasn't one person who said, "Yeah, that can happen." I heard "Just do one thing really well and then you can expand" a lot. But I wanted

Inside the Honest Formula

The Honest Company—which Jessica Alba co-founded in 2011 with CEO Brian Lee, COO Sean Kane, and chief product officer Christopher Gavigan—pitches its products as the solution to many a parent's woes: They're nontoxic, they actually work, and they look nice on the counter. Many doubted the company could succeed, but it's rung up impressive numbers in a few short years. Revenues in 2014 are projected to hit $150 million, and Honest has scored $122 million in funding, including a $70 million round in August that valued the company at nearly $1 billion. How did Alba and the Honest team manage to come so far so quickly?



RECURRING REVENUE

Nearly 80 percent of Honest Company's sales come from its subscription plans, which let customers bundle items and have them delivered monthly. Those subscribers pay up front, giving the business more cash flow and providing predictable, repeating revenue—and such businesses are valued at higher multiples.

THE UPSELL

Honest's biggest seller is diapers: The company ships more than 10,000 product orders daily, and half include its fashionably patterned, plant-based diapers. To promote its cleaning and personal care products, Honest offers free trials (customers pay $6 for shipping). And it works. Half of Honest's trial users wind up buying more products.

THE FEEL-GOOD HALO

Like startups Toms and Warby Parker, the Honest Company built a charitable mission into its business model. With every customer purchase, the company promises to do some good work—such as donating baby supplies to local diaper banks and sending employees to volunteer for L.A.-area beach cleanup days.

THE NOT-SO-SECRET WEAPON

Sure, Alba brought a great idea—and star power—when the Honest team approached investors in 2011. But she also brought something else. "It helps when your partner is pitching a clean-living lifestyle brand for families, and she walks into the room almost nine months pregnant," says Gavigan. "She was practically about to go into labor!"

this to be a whole lifestyle brand. Everyone I talked with in Hollywood could not wrap their heads around the idea. Whenever I tried to sit down with them about it, they would just get this glazed look on their faces. Entertainment is a totally different business. It's like, how do you squeeze the most out of a person for five seconds, and then you move on to the next one. It's hard for people to take anyone seriously who's never done this before. They see you only as something else. But all that just gave me fire to move forward.

I approached this guy who built the top-selling accessories brand at Macy's. We're friends, and he was trying to help me figure out how to execute on this idea. But he built his brand off of one item and then expanded. He found traditional retail partners and then opened his own stores. He didn't understand how to build this thing from scratch. Friends want to help you, but they're also going to be the most critical. We launched with 17 products. Even my husband, Cash, thought the idea was too big.

"Friends want to help you, but they're also going to be the most critical. Even my husband thought the idea was too big."

It took me three years to find my business partners. You have to be brutally honest with yourself and understand your strengths and weaknesses. I'm not a business person—I'm a mom. I wasn't going to be coding. I wasn't going to be in the lab mixing potions. (Though I do test all the products on my kids!) I wasn't going to be the one doing the business model and running the operation. If I went in there and said, "Hey, I'm going to put together

COURTESY COMPANY

this business from scratch all by myself," I'm sure it would have been a lot more difficult to get VCs to take me seriously, but once you have the right partners, it isn't. Having the right partners also means having people you like. They're all people I wouldn't mind getting stuck with at an airport for five hours. We can hang and have a beer and chat it up, or stay silent together and be totally cool with that. That's really important.

Then the team sat down with a lot of people who weren't going to invest—friends like Tory Burch and Narciso Rodriguez, both of whom built successful businesses, and people from big tech companies and public companies—to test our pitch. They asked us great questions: What are you going to do when you run out of product? What if it's not delivered on time? How are you going to get people to your website?

With them, it didn't matter that we weren't perfect in the way we pitched Honest. It was kind of like how comedians go out and do standup in small clubs in different cities to test their material before they do their HBO special: All of that back-and-forth helped us refine our pitch. And it got a lot shorter—we got it down to a 10-minute pitch deck and a 15-minute question-and-answer session. So then we knew we could do it in a 30-minute meeting.

Almost every VC we talked to was on their first or second child and told me their wives were doing the same research that I was, trying to find a brand they could trust. We didn't try to find investors with young families. It just happened. But in retrospect, that would have been a good tactic!

By the time we got into the room with VCs, it wasn't that hard of a sell. We went in with a real plan of attack, a strong process, and smart people. By that point we had talked to so many people, having them try to poke holes in the idea. Because that is exactly what the VCs are going to do. Inevitably, they're going to ask questions you can't answer. If you're writing down the 20th question to which you don't have an answer, that's a problem. You can say "I'll get back to you," but not more than five times.

—AS TOLD TO LINDSAY BLAKELY

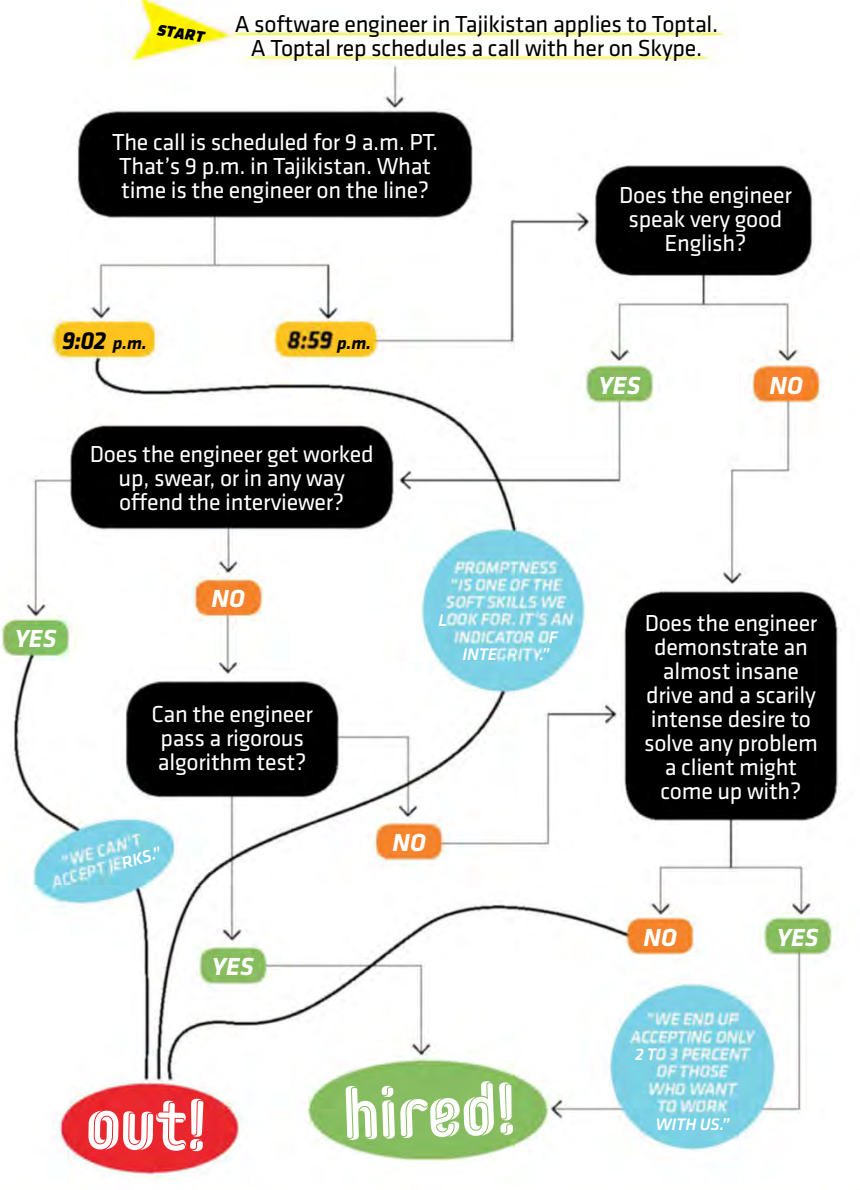
ILLUSTRATION: MICHAEL HOEWELER

HOW TO

BUILD A KILLER TEAM—SIGHT UNSEEN



MANAGING A VIRTUAL *work force is many degrees more difficult than managing a centralized company. But it's what Taso Du Val, the co-founder and CEO of Toptal, must do each day. Toptal connects well-known clients such as Airbnb, Pfizer, and Ideo with its network of top programming talent, which is scattered all over the world. To make sure his company stays on top of its game, Du Val has developed a hiring system so his 70 employees and 500 contractors stay in sync across oceans and continents and multiple time zones. It starts with several qualities Du Val prizes in himself. How does he transplant his DNA into his far-flung work force?*



HOW TO

WORK WITH YOUR SPOUSE

DAVID LIU AND CARLEY RONEY *co-founded wedding/lifestyle portal the Knot (now XO Group) in 1996. It was their second startup after they married in 1993. Since then, they've IPO'd once, gotten delisted, gotten relisted, expanded internationally, dealt with activist investors, raised three children, and kept their marriage intact. How? They're not entirely sure, but they spoke about it anyway.*



CARLEY: We always say: Don't do this if there is any other option. There wasn't for us. Oh, well.

DAVID: The stats run against you. Fifty percent of marriages end in divorce, and most businesses close in their first year.

C: How do you do this? David, you start.

D: When you launch a business, it's hard to manage who does what and respect boundaries and avoid usurping each other's authority. We had a technique: One of us would be the boss of a given topic and would have final say. So if we disagreed, the other could still say, "OK, you're the boss."

C: It never worked. Neither of us is particularly respectful of authority. One of the big challenges was moving to a hierarchical structure. More than once, David had to say, "Sorry, I am the CEO and I have to make the final decision." The bitch of that moment is, you just want to go home and complain to your husband about your really annoying boss.

D: Though she tried. All the time. It becomes a good way to check and balance. If you overrule and pull the CEO card, you have to think harder about doing it, because there are personal consequences.

C: Withholding sex, obviously.

D: ... until the next budget meeting. The times of wealth and opportunity are when conflicts emerge, and the challenges of managing expectations and authority become problematic.

Photographs by **NOEL SPIRANDELLI**

WITHOUT KILLING EACH OTHER

C: It's actually the difficult times, when you really want to protect your spouse and business, that I think are the best. You have a common enemy.

D: One thing that's enabled us to survive all this is that Carley and I are very different people. Um ...

C: Yeah, David, why don't you paint our differences?

D: When I am up, she's down and vice versa. There is always a cheerleader there to say, "We will get through this." It smooths the highs and lows out a little bit.

C: One thing we weren't able to say to ourselves, for maybe 10 years, is you have to decide at some point that the marriage comes first. A startup is like a child: You protect your child over your spouse. But eventually you have to say, "Wait. The whole thing falls apart if our marriage doesn't last." That was an important transition. It makes you sometimes shut up when everything seems like life or death.

D: We've been in business six months less than we've been married. While we were trying to figure out marriage, we were also trying to figure out how to have a business. We've heard other couples talk about this in such a utopian way: "One key thing is you separate family and work life." We made a valiant effort to do that. It's impossible.

C: It's ridiculous!

D: We tried, in the early days. We'd say, "Tonight is a date night. We're going out to dinner. We won't talk about work.' We'd sit there and stare at each other for 25 minutes. Then we'd go, "OK, fuck that. We gotta worry about this, we gotta worry about that."

C: One saving grace was friends. Having a good time with others makes you see each other in a different context: "Oh, right—he's such a great person. He's so funny!"

D: Only entrepreneur friends, though. If you're with other friends, it gets uncomfortable when they complain about their bosses. Because then your wife says, "Yeah. I've got a boss who's an asshole too."



HOW TO

EAT FOR MAXIMUM ENERGY

YOU THINK YOU *have trouble deciding what to fix for dinner? Try feeding thousands of hungry people three times a day, five days a week, to keep them both happy and highly productive. That daunting task belongs to Facebook executive chefs Tony Castellucci and Dean Spinks. If anyone knows how to eat to get energized, it's these guys. They shared their secrets with* Inc.

BREAKFAST

Poached egg with roasted sweet potato and Brussels sprout hash



NOT FEELING THAT GOURMET IN THE MORNING?
Throw some no-sugar-added granola and sliced banana on top of plain Greek yogurt.

"What you want to avoid here is a surge of sugar in your system" so you don't crash a couple of hours later, says Castellucci.

LUNCH

Your choice of salad



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- ___ FISH
- ___ AVOCADO
- ___ BOTH



CASTELLUCCI'S FAVORITE WHEN HE'S DRAGGING?
A bowl of ramen—but heavier on the vegetables (carrots, cabbage, daikon, mushrooms, green onion) than on noodles and with chicken instead of pork

"Lack of iron can cause fatigue. And if you try to cut most of the fat from your diet, you won't be able to absorb antioxidants," Spinks says.

AFTERNOON SNACK

WALNUTS, CASHEWS, RAW ALMONDS, ROASTED SEAWEED
Full of fiber and B6, which is good for preventing brain fatigue



"The best in-between snack is a handful of nuts. That will fill you up quickly and give you energy," says Castellucci.

DINNER

Pan-seared duck breast with gastrique, Le Puy lentils with a mirepoix of onions, celery, and carrots, and hard-seared broccoli with chilis



"We push steamed whole grains every meal—such as farro or barley," says Castellucci. "They're energy boosters. We add no oil or salt. We do add fruits, nuts, and vegetables, but this can be a hard sell."

AIM FOR
- 60 percent vegetables
- 20 percent carbs from whole grains
- 20 percent lean proteins

MIDMORNING ENERGY BOOST

Instead of coffee, try Castellucci's quick fix: Stir one teaspoon of chia seeds into a glass of coconut water. "Chia seeds were consumed by Aztec warriors," Castellucci says. The tiny seeds are packed with omega-3 fatty acids, protein, fiber, antioxidants, and calcium, and the coconut water is good for rehydrating—it has less sugar and more potassium than typical sports drinks.



A HANDFUL OF PROTEIN

AIM FOR A PALM-SIZE AMOUNT OF ANIMAL PROTEIN; YOU CAN EAT MORE IF IT'S PLANT-BASED.

FORGET AN APPLE A DAY

IT'S BETTER TO KEEP YOUR BODY GUESSING AND EAT A VARIETY OF FRUITS.

WARNING: *"BY THE WAY, ALL OF THIS DOESN'T MAKE ANY SENSE IF YOU AREN'T EXERCISING AS WELL," SAYS CASTELLUCCI.*

MICHAEL HOEWELER; ICON: ANTON NOSKOV

Dell and Intel® know how nuggets: growing businesses need solid plans to help them harness the power of technology.



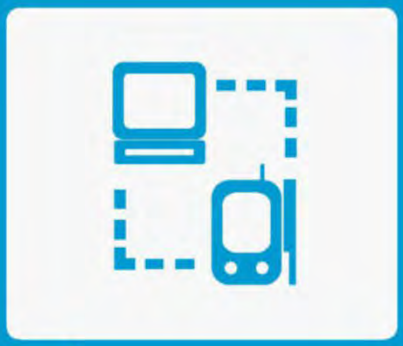
SMB technology is a shifting landscape, and it's hard to stay on top of new options. Take time to plan in order to avoid distraction.



Every technology plan should include a projected, measurable return-on-investment.



Effective technology investments look at challenges and opportunities within the overall framework of your business goals. They should make your business better in some meaningful way.



As technology has exploded, some companies find themselves with a patchwork of applications, devices, and solutions that don't work together. Integration should be a primary concern in any technology investment.



Using the "every two to three years" upgrade rule could be a bad fit for your business. Take into account obsolescence, compliance, industry standards and what your business needs to grow.



Many businesses have a choice between outsourced and in-house IT services. There are benefits to both, but you should decide based on your core business. Consider keeping functions related to your core business in-house and outsourcing others.

HOW TO

GET BACK TO WHAT MAKES YOUR COMPANY GREAT

KATRINA MARKOFF IS *the founder of Vosges Haut-Chocolat. Recently she's been wrestling with how to bring her fast-growing, $30 million chocolatier back to its entrepreneurial roots.*



YOUR VISION FOR great products and a sense of mission are what drive you to start a company, but when you run a business sometimes you get away from your roots. I'm asking our leadership team to concentrate more on day-to-day operations. This way, I can get new things out *now*, not in six months. I feed off the new, and changing our company structure will let me do much more of that. I want to focus on the soul of the products. The business case comes later.

Freedom is my special sauce. It enables me to grow the company artfully. So my priority is developing "Lab Katrina Markoff," a new in-house R&D program. We're using it to roll out new products to our stores every two weeks. Some people say that's dangerous, because we're constantly fine-tuning recipes and customers may get a different version each time, but I really like the open R&D approach. We're developing a new drink that taps into the superfood aspect of cacao, and we're really excited about the chance to shift people from coffee to a cacao drink that can be served hot or cold. Starbucks should be worried!

Photograph by **PETER HOFFMAN**

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OSTERIA VIA STATO
PETTERINO'S
TUCCI BENUCCH

HOW TO

COME UP WITH A MILLION IDEAS—AND MAKE THEM WORK

MOST RESTAURANT *entrepreneurs franchise one idea everywhere. Not Richard Melman. Since 1971, the founder of Chicago-based Lettuce Entertain You Enterprises has opened 185 restaurants, representing around 70 concepts. (He's lost count.) How does the pun-happy restaurateur who once started Lawrence of Oregano and Jonathan Livingston Seafood keep doing it?*

MINE THE PAST AND FUTURE

I'll think back to a pizza place I loved as a kid, or to mod London in the '60s, a theme I'm weaving into a steakhouse. Or I'll think about the future of vegetables and talk to dietitians and people working with grains. My first restaurant was inspired by youth culture and Woodstock.

START WITH THE PRODUCT

We were doing a fast-casual Asian concept. The chef made these filled dumplings called bao. I said, "That's a restaurant," and we created Wow Bao. I know one chef who makes delicious, healthy, simple food. One day I said, "Why don't we do a restaurant?" That became Beatrix.

RESPOND TO CHANGES—AND KNOW YOUR LIMITS

Artists create for the public but also express something about themselves at a given time. I do the same thing with restaurants. I don't have a good sense of customers more than 20 years younger than I am, so my three children help with concepts for Millennials.

INNOVATE OUTSIDE, REPLICATE INSIDE

Our restaurants are like the opposite sides of a coin. Heads and tails—food and décor are different at each. But what holds them together—how we hire and train and market and make people successful—remains the same. The way we do things is very solid and doesn't change.

HOW TO

Be Brutally Efficient

CLOUDFLARE, FOUNDED *in 2009 by Michelle Zatlyn, Matthew Prince, and Lee Holloway, keeps websites for Meetup.org, Metallica, and many others running quickly, safely, and securely. It's adding 5,000 new customers a day, and revenue this year is expected to hit $40 million.* Inc. *spoke with Zatlyn about how a ferocious focus on efficiency can drive growth.*

It's easy to get something to 85 or 90 percent but harder to get it to the finish. As a small business or startup, that kills you. You have to finish faster than large incumbents. Early on, we spent a lot of time focused on getting people rolling in the right direction and in sync so we could deliver.

At first, as a companywide exercise, we'd plan the next three weeks. Everyone's name went on the *y*-axis of a whiteboard with specific tasks, written on sticky notes, that they were to accomplish in week one, week two, and week three. On Friday at 5 p.m., we would stand up and say what we accomplished, what we didn't, and why. The whiteboard method worked until we had about 25 people. Now, we plan every three months. Three weeks is too short, and six months is too long.

At those companywide quarterly meetings, every team stands up and explains what they are going to deliver. It's very simple: What it is, who's working on it, and when it will be done. Everything goes in a big document. At the end of the quarter, the teams say if they got it done or what percentage of it got done, why the rest didn't get done, and what got added to the road map.

When we hire, we prioritize people who finish tasks. I ask about a project, product, or time when the potential hire had to start something and end it over a period of weeks or a couple of months. Some people can rattle off lots of examples and some people can't. It becomes clear who is biased toward action.

At any small business or startup, there are always more things to do than your team can manage. We have our teams state explicitly what they will *not* do the next quarter. It's just as important to have that information and not get distracted.

GETTY (5)



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HOW TO

TRAVEL WITHOUT TEARS

RANDY PETERSEN *founded FlyerTalk, the Web's largest frequent-flier community, in 1995 and sold it in 2007. He now runs MilePoint and BoardingArea—two more sites focusing on the ins and outs of air travel. He's flown more than 20 million miles, so hear him out.*



GO MONOCHROME
My uniform hasn't changed in 20 years; every time I fly, I'm in Nike, and I'm all in black. I'm the most comfortable passenger the airline industry ever invented. I never worry about someone spilling stuff all over me. And I never have to take off a belt.

DON'T CARRY RECEIPTS
The worst thing is to be slowed down by paperwork. I use an app called Expensify to take a picture of every receipt as soon as it lands on the table. After that, I don't care if I lose it.



MOVIES ARE FOR KIDS
Real road warriors get on the plane and just go to sleep. Don't stay up all night watching movies, or waiting for someone to get upset about a Knee Defender. I'm a big believer in Benadryl. A little dose and I'm drowsy. The next thing I know, I'm where I should be.



TREAT YOURSELF
I've learned that in your middle years as a traveler, you stop thinking you're invincible. It's OK to spoil yourself along the way. Every time I see one of those half-hour massages at the airport—here's my money, get me going. If I can't get in a lounge for free, I'm good with spending $50. A familiar environment where I'm not fighting for power outlets is worth it. Cokes cost eight bucks in the terminal, anyway.



ARRIVE HUNGRY
On board, food just doesn't interest me. I've never seen it executed well on a long-haul flight, anyway.

STOP SCHLEPPING
I still check bags, at least internationally, because you're traveling with more than a backpack. I don't like carrying stuff around if I don't have to. Frequent fliers like me don't pay $25 per bag anyway, so I might as well take advantage of it. I want to ensure I'm getting the most out of my benefits.



HOW TO

Learn From Social Media (Without Losing All Your Time)

JEFF PLATT IS *CEO of Sky Zone, a Los Angeles–based chain of indoor trampoline parks with 80 locations in four countries.*

I believe in "brutal facts." You have to be willing to really understand what people are saying about you and your brand. That means listening, and today listening means social media. I use Twitter for direct communication with our employees, customers, and others. And Instagram, because our parks are very visual, and people love to post pictures when they go to a Sky Zone facility. I think there are about 190,000 photos of Sky Zone on Instagram right now. I can get a crowdsourced look into virtually all of our parks.

We were surprised to see how many of the photos on Instagram are of our "Sky Socks," the special socks people wear on the trampolines. They have become our badge, our identity, and we're looking at ways to incorporate them into our marketing. We also learned that many tweets about us have to do with the planning that goes into a trip to Sky Zone: who's coming, when, who's driving. There could be an opportunity to get in on some of those conversations and make a special offer—something like, "Hey, get five friends together and we'll give you a free pass." People don't expect an offer like that. It could be a great way to build loyalty. We're researching it now and plan to roll out something next year.

I grew up on social media. Most of my senior team didn't. So I forced them to create accounts and get out there and listen. People worry that social media can become very time-consuming. I block out time for it at the start and end of the day, maybe 60 to 90 minutes total. I don't think of it as work. I can scroll through 30 Instagram pics in just a couple of minutes. What might seem like "a lot" of time to some people actually isn't, once you see how many different ways you can improve a business by making the most of social media.

MICHAEL HOEWELER



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MAKING IGGY POP Australian rapper Azalea is one of 2014's breakout stars.

HOW TO

CREATE A MEGASTAR

WHEN HE WORKED *for digital marketing agency ThinkTank, Brian Scully helped turn Lady Gaga into the biggest star on the planet. In 2011, he left to co-found a new firm, Chaos. This year, he put Australian rapper Iggy Azalea on top of the charts—but his star-making smarts stretch beyond the music biz.*

EXPAND BEYOND YOUR CROWD

Our DJs did lots of events at New York Fashion Week. Cultural and lifestyle tie-ins expand a DJ's audience. A fashion designer lends his or her artistic credibility to our musician. Brenmar collaborated with the VFiles designers to program the music for their Webster Hall show. Uniiqu3 did a top-secret Alexander Wang show in Brooklyn. Other industries should seek similar tie-ins to get in front of customers who wouldn't normally see them.

GAME SOCIAL MEDIA—CAREFULLY

Lady Gaga was music's first big Twitter star. We carved out a chunk of the day or week to answer fans. Now, 21-year-old DJs tweet and use Facebook naturally. We teach them what not to do. It feels restrictive, because they are used to putting anything they want on there, but it's so easy for anyone or any company to get in trouble. When I get a request from one of my clients on Snapchat, I'm like, "I don't know if I want you on Snapchat."

SEEK UNEXPECTED INTRODUCTIONS

I saw Iggy Azalea in her first music video, "Pu$$y." I don't think it had even 10,000 views. She looked like a model but could easily hold her own with any well-known rapper. I told everybody in the office to get on the phone and call every one of their contacts—*someone* had to know this six-footer from Down Under. And we found a friend in the industry who was working with her. You never know where your biggest client is going to come from.

BREAK THROUGH THE NOISE

The internet gives smaller entities—artists, companies—the tools to get exposure, but everybody has the same tools. We use our connections to get our artists in front of the tastemakers. If that leads to a connection between the artist and the blogger, they'll tweet at each other or check in on other forms of social media, and the followers of that blogger see it and know our guy is for real. That concept holds in any industry.

HOW TO

Kill It on *Shark Tank*

GETTING ON Shark Tank *is a big deal. "You're out in front of not just powerful investors but also a national audience of potential customers. You've got to nail it," says Tim Barklage, CEO and co-founder of Better Life, a natural cleaning-products company, He and co-founder Kevin Tibbs had six weeks to prep prior to the taping of their episode. Then they made the most of their 15 minutes: They won.*

We watched three years' worth of shows and identified the questions that routinely get asked. Most fall into two categories: finances and what distinguishes you in the market. You've got to know those subjects cold. We also researched the backgrounds of the sharks. If you decide who you'd like to work with, it helps you weigh the deals.

We wanted to get our message across but also to make good television. Among other flourishes, we rubbed raw chicken across a countertop in a head-to-head comparison with a chemical-based product, and we concluded with a great demo of our product's safety: Kevin sprayed some into his mouth.

We practiced in front of friends and employees, and also with experienced investors and entrepreneurs, people who routinely do deals and could push back at us.

We knew we had to be ready for a spike in web traffic and sales when the episode aired, so we boosted inventory. To make it easy for *Shark Tank* viewers to find us online, we created a "*Shark Tank* Kit" of all the products featured on the show. The night of the broadcast, we set up a social media war room where our employees and public-relations firm ate pizza and drank soda while answering the phones, responding to emails, and posting to Facebook and Twitter.

To avoid being intimidated, we always remembered: One advantage you have on *Shark Tank* is that you know a lot about the sharks, but they know nothing about you. That gave us a lot of confidence.

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CHAMPIONS OF GROWTH

No Business Is Safe from "Brand Inertia"



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BRAND ADVANTAGE IS NOT WHAT IT USED TO BE

In the pantheon of risk management challenges keeping business owners awake at night, it's unlikely that "success" tops many lists, but maybe it should, says Howard A. Tullman, a renowned venture capitalist and CEO of Chicago's 1871 digital start-up incubator. With more than 45 years of start-up, management, IPO, and turnaround experience, he warns that success can be treacherous if it leads to "brand inertia."

"The protection and insulation that an established brand has traditionally offered as an endorsement and validator has changed dramatically," he says, pointing to the steep declines in brand loyalty among car buyers in recent years. According to Experian Automotive, brand loyalty dropped by about 20 percent from 1998 to 2008 and continues to fall, ranging from just 34 percent to 44 percent among the top 10 brands in 2013. Failure to develop a strategy to manage the risk of brand dilution could leave many businesses vulnerable.

Inappropriate brand extension may be an even bigger threat than brand inertia for some businesses, Tullman adds, and it also demands a risk management plan. He cites a litany of classic mistakes in industries ranging from soft drinks to snack foods to health and beauty aids. "Pretty much everyone has figured out that sitting still is not an option in today's world, but at least as many mistakes are made by going forward inappropriately as by doing nothing," he says.

PROACTIVE APPROACH TO RISK MANAGEMENT

So how do you manage this new breed of risk? Rapid development and speed to market are crucial. In some cases, investing in other businesses is the best way to get there. "You need to understand that the kinds of changes that will matter and will build your business going forward are not incremental." While that might sound counter-intuitive to a traditional risk management approach, fast-paced, decisive action is critical to ongoing success in the current environment, he stresses.

Companies in turnaround situations face even greater challenges, but they can be met. "Understand that you can't market your way out of trouble. No technology provides anything more than a temporary advantage; people are the only long-term advantage," Tullman says. When all is said and done, the best risk management strategy against brand inertia is knowing the most important and powerful value of your brand and delivering on that to your consumers.

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STREET SMARTS

Norm Brodsky

The Power of 100-Year-Old Business Concepts

Instead of searching for the "next big thing," how about going into a business everybody already understands?

LATELY I KEEP running into young entrepreneurs who think the secret to startup success is to find a business concept no one has thought of before. Once they get the business up and running, they'll have the market to themselves. And the less competition they have, the better off they'll be. Or so they believe.

I have the opposite philosophy. When I start a business, I want it to be in an industry that's been around for 100 years, preferably one with a lot of competition. To me, it's a good sign if others are already making money doing what I plan to do. But I also want an industry that's a little antiquated—that is, one in which companies haven't kept up with technology. I can establish a niche by taking advantage of that failing.

Those are, in fact, the three criteria I use to evaluate startup opportunities: a 100-year-old industry, antiquated business practices, and the potential for a niche.

Why? First, to minimize the cost of educating the market, which is one of the most expensive undertakings in business. I learned that lesson in the 1980s, when I expanded my first company, a messenger service, to Atlanta. Ours was the only messenger service in the city. I thought, "Hooray, no competition!" Then I discovered the downside: no demand. It cost me a fortune in advertising and PR to explain why potential customers should use our service. Never again.

Of course, if you have a lot of competitors, you still have to figure out how to make sales. The easy way is to charge less, but lower prices usually mean lower gross margins, which will force you to spend your startup capital faster than you should. Most new companies can't survive as commodity businesses competing on price.

That's why I like industries with antiquated business practices. By applying the latest technology, you can find ways to differentiate your company. In my messenger business, we were among the first to invest in a computer. That allowed us to tailor our invoices to the specific needs of each customer, which our competitors weren't able to do. In my records-storage business, we used new technology to build warehouses with much higher ceilings than our competitors had. As a result, we could store up to three times as many boxes as they could in a given amount of square footage. That meant we could charge less *and* have higher gross margins.

In the process, we developed our initial niche in each business. I say "initial" because no niche lasts forever. If you have a profitable one, sooner or later other people will figure out that there's money to be made and start copying you. At that point, you have to find a new niche. I'm facing that challenge with my hotels in the Bakken fracking region of North Dakota. When our main competitors were the so-called man camps, our niche was reasonably secure. Now some of the big hotel chains are moving in, and we're figuring out how to respond.

Let me be clear that I am not discouraging young entrepreneurs from trying a business concept no one has thought of before. A small percentage of them will succeed, and some will have a huge impact on society. But the odds of building a viable business are far better for entrepreneurs who follow my three criteria. If you don't fancy yourself the next Mark Zuckerberg, you might want to think about using them.

Norm Brodsky is a veteran entrepreneur. His co-author is editor-at-large Bo Burlingham. They are also co-authors of *Street Smarts: An All-Purpose Tool Kit for Entrepreneurs.* Follow them on Twitter: *@normbrodsky* and *@boburlingham.*

SCAN THIS PAGE TO SEE NORM ANSWER QUESTIONS FROM ENTREPRENEURS. (See page 10 for details.)
Do you have a question for Norm? Write to him at *AskNorm@inc.com.*

EVAN KAFKA

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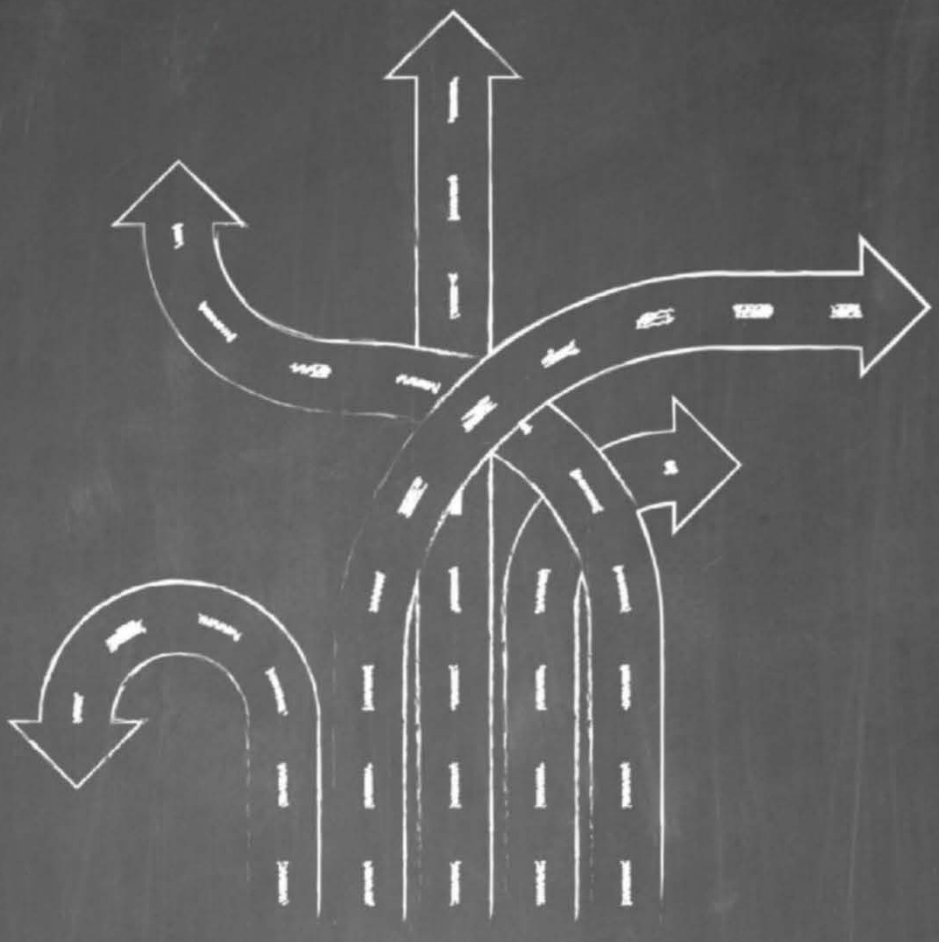
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– LEWIS SCHIFF, FOUNDER, INC. BUSINESS OWNERS COUNCIL



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"We're those people you shove in the corner. We don't know how amazing we are."

–GABRIEL BRISTOL, the formerly homeless CEO of Intelicare Direct call centers

PG. 98

PHOTOGRAPH BY **YE RIN MOK**

High-Tech Snoozing

Five technologies to help you feel rested



Measuring Zzz's

Find out how much sleep you're really getting (or not getting) with the wristwatch-style Basis Peak. The device's accelerometer, heart-rate monitor, and other sensors track periods of REM, deep, and light sleep. It also doubles as a fitness tracker. *$199, mybasis.com*

Rise and Shine

The Wake-up Light, a souped-up alarm clock from Philips, simulates a sunrise, with 30 minutes of gradually brightening light. At your alarm time, it will play a choice of five natural sounds (or the not-so-natural FM radio). *$170, philips-store.com*

Tip Sheet

HACKING SLEEP

Companies boost productivity by promoting more shuteye



THE ABILITY TO get by on little sleep is frequently seen as a badge of honor in the business world. Entrepreneurs, in particular, often sacrifice sleep for the sake of their companies. In a recent survey of Inc. 500 CEOs, 48 percent said they sleep six hours or less a night, and 85 percent work 10 hours or more a day.

But skimping on sleep leads to more than bloodshot eyes. Numerous studies have shown that sleep deprivation impairs concentration, judgment, decision-making ability, and memory. It also increases irritability, anxiety, depression, and the risk for major health problems, including hypertension and some types of cancer. "Those macho types who brag about needing only six hours of sleep are falling apart, and they don't even realize it," says James Maas, a psychologist, corporate sleep consultant, and author of *Power Sleep*.

Many of your employees are probably bleary-eyed, too. The Centers for Disease Control and Prevention estimates that 30 percent of workers sleep less than six hours a night, and another study estimates that sleep deprivation costs U.S. businesses $63.2 billion in lost productivity each year.

Realizing this, leaders are looking for ways to optimize sleep—both for themselves and their employees—in order to gain a business edge. Many companies, including Google, Zappos, and the Huffington Post, are providing nap pods and other places for employees to catch some strategic shuteye at work. It makes sense. Even people who sleep seven to nine hours a night are naturally prone to an afternoon slump. "It's not lunch that's making you drowsy," says Maas. "It's the circadian rhythm." Taking a short nap—as little as 10 or 20 minutes—in the afternoon can decrease fatigue and improve alertness for up to four hours. (See "Anatomy of a Power Nap," facing page.)

Stan Richards, founder and CEO of the Richards Group, a Dallas ad agency with 700 employees, set up nap rooms in his offices several years ago. "For a long time, I've known that there's a lull that comes right after lunch, when I tend to be less productive," he says. The company's four nap rooms, each equipped with a comfortable chaise longue and a locking door, get plenty of use during the week. "There's no embarrassment on the part of people using them, or any feeling that you're not doing your part," Richards says—largely because he himself can be seen slipping into a nap room every 10 days or so.

It's important for leaders to set the tone that sleep isn't for wimps. Those who themselves get by on very little sleep need to be particularly vigilant, says Andrew Herr, CEO of Mind + Matter, a Washington, D.C.–area professional coaching service. "They may inadvertently create a culture where the people working for them get pretty degraded," he says.

SPREAD: CLOCKWISE FROM TOP LEFT: COURTESY COMPANY (2); ROSS MCDONALD; MICHAEL TUREK/GALLERY STOCK

Blast Off to Dreamland

Want to splurge on naptime? The MetroNaps EnergyPod—a staple at Google headquarters—comes with a visor to block out light and built-in speakers that play soothing sounds. Gentle lights and vibration wake you. *About $13,000, metronaps.com*



Eye Brightener

A 15-to-30-minute dose of high-intensity beams from the Litebook Elite acts as a morning pick-me-up. The five-inch-wide device, whose light emulates the sun's, may also help with adjusting your body's clock after you've traveled across time zones. *$175, litebook.com*

Nighttime Screen Saver

Looking at a computer screen after dark can mess with your circadian rhythm. F.lux software runs on your Mac or PC, automatically adjusting the color (but not the brightness) of your display and filtering out blue-wavelength light as your bedtime approaches, to help you fall asleep easier. *Free, justgetflux.com*



Boosting sleep can have a big impact. A study published in 2011 found that the Stanford University basketball team, after upping their nighttime sleep to 10 hours, not only improved their reaction time, speed, and mood, but also bettered their three-point shooting accuracy by nearly 10 percent. Imagine a 10 percent improvement across key metrics in your business—and all you have to do is close your eyes. —ADAM BLUESTEIN

HOW TO CREATE A PRO-SLEEP CULTURE

LIMIT EMAILS
A recent survey found that about 60 percent of white-collar workers with smartphones monitored them 13.5 hours or more a day for work, stretching well into the evening. Late-night emails send the brain "stay alert" signals when it should be ramping down. Leaders can help by avoiding midnight missives, or at least setting clear expectations: If you like to catch up on email at night, make sure your team knows you don't expect a response right away.

RESPECT CHRONOTYPES
According to scientists, everyone has a "clock gene," or chronotype, which controls natural sleep preferences. Early birds tend to wake up an hour to several hours earlier than night owls. Understanding these different tendencies can help you schedule your team for optimal performance. (Try not to schedule early-morning presentations for your resident night owls, for instance.) Flexible work schedules are another way to accommodate chronotype diversity.

CHANGE THE LIGHTS
Light plays an important role in regulating circadian cycles, short-wavelength blue light in particular. Installing blue-toned white lights at the office can help boost alertness and productivity. But at night, you should decrease exposure to that light, which inhibits your body's production of the sleep-triggering hormone melatonin. Experts recommend avoiding screens—TVs, laptops, phones—that emit a lot of blue light for an hour or more before bed.



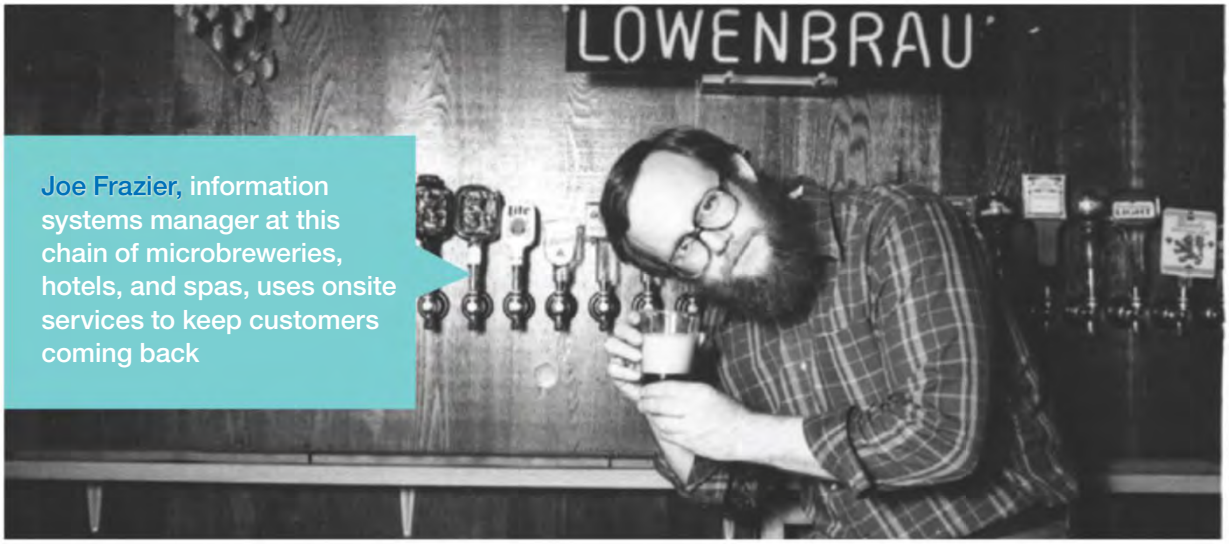
ANATOMY OF A POWER NAP

JAMES MAAS IS king of the "power nap." A former Cornell psychology professor turned corporate sleep guru, Maas coined the phrase. "I invented it while consulting at IBM years ago," he says. "I wish I had trademarked it."

A proper power nap, Maas says, is short—15 to 20 minutes, "long enough to rejuvenate, but not make you groggy or give you insomnia later." Ideally, you should lie down—although it's possible to nap in a chair—close the door, and turn off the lights. Though longer naps are more restorative, they require longer recovery times.

In fact, if you go past 20 minutes, Maas suggests sleeping a full 90 minutes to get a complete REM sleep cycle, rather than rousing yourself from a deep sleep. To decrease grogginess, some experts recommend drinking coffee right before your nap. It takes about 20 minutes to kick in, so you'll wake up with a (caffeinated) jolt of energy.

McMenamins: Brewing the Best Customer Experience



Joe Frazier, information systems manager at this chain of microbreweries, hotels, and spas, uses onsite services to keep customers coming back

P@W: What is McMenamins, and how did it get started?

Joe Frazier: McMenamins is the fourth-largest producer of microbrewed beer in the Pacific Northwest, a region well known for crafting some of the world's best ales. Brothers Mike and Brian McMenamin opened the first McMenamins pub in Portland, Oregon, in 1983 and the first McMenamins brewery two years later in the same city. Today the company owns and operates 57 pubs—24 of which are breweries—nine hotels, two spas, two distilleries, a winery, and multiple movie theaters and music venues throughout Oregon and Washington. McMenamins has always sold our fine, handmade ales exclusively through our own establishments, and that continues to be the case today.

P@W: How integral is the Internet to the customer experience at McMenamins?

JF: All of our offerings rely to some extent on the Internet, and we were bumping up against limits with our previous service provider. Our hospitality group reached a point where they could not continue to build customer loyalty and expand physically without better network connectivity between locations, and we needed the ability to offer modern, onsite services like Wi-Fi and HDTV. Our reputation for high customer service standards was also at risk because the slow service we got from our previous provider hindered operations. Both employees and customers at the pubs faced frustration when credit card transactions took too long to process. Check-out speed for hotel guests was becoming an issue, and we were getting a lot of customer complaints about spotty Wi-Fi service. More and more customers, especially patrons of our catering and event spaces, require the ability to stream video and host online meetings, and that requires significant bandwidth and Internet speed.

P@W: How has switching to Comcast helped?

PK: In assessing our options, we knew that we needed robust solutions to address our needs, and Comcast Business has a great understanding of the unique requirements of businesses like ours. We got what we needed with when we switched to Comcast Business Ethernet Dedicated Internet, Comcast Business Ethernet Network Service, Comcast Business TV, and Comcast Business Voice. Now we have scalable, high-capacity Internet service that can grow with the company, reliable voice service for a high-quality customer experience, and the kind of confidence in our technology offerings that allows McMenamins to pursue business expansion opportunities as they arise. In addition, having a single point of contact for all our locations makes it easier to manage those services and gives us peace of mind.

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How I Did It

The Hard Work of Easy Takeout Food

Matt Maloney, GrubHub

It was just another hungry late night at work, but Matt Maloney sensed an opportunity. In 2004, he and co-worker Mike Evans launched GrubHub, an online food-ordering service, in Chicago. Lately, business has been good. After making the Inc. 500 in 2010 and 2011, GrubHub hit $137 million in revenue in 2013. It also merged with competitor Seamless (another Inc. 500 alum). In April, Maloney, who is CEO of the combined company, led GrubHub to a successful IPO. And, if he gets his way, no one will ever have to phone for a pizza again.

As told to **LIZ WELCH** Photograph by **RYAN LOWRY**

DRINKING IT IN
Months after GrubHub's IPO, Matt Maloney's Chicago-based food-ordering service is now valued at about $3 billion.

INNOVATION works best when there's a problem to solve. The eureka moment for GrubHub came when Mike and I were working as developers for Apartments.com. We were frustrated by the lack of dinner options as well as the pain in the ass of calling restaurants and reading our credit cards. At the time, we were working on geographic lookup searches for rental real estate. That's when I heard the screeching wheels in my head: Why wasn't there something like this for food delivery?

MIKE AND I collected hundreds of menus around my Chicago neighborhood, and he wrote some code. We thought restaurants would pay for the ability to capture the attention of hungry people. We initially charged them $140 for six months of premium placement on our website. But when we started asking restaurants for money, most of them didn't see the value. They had spent thousands of dollars putting up crappy websites that nobody ever found, so the idea of paying for another site of unknown value wasn't appealing. Finally we said, "What if we take a 10 percent commission on whatever we sell for you?" Restaurants loved that.

WE REALIZED WE had a really good product that was scalable. The next step was expanding to a second city. We tried to raise venture capital to do that, but it was

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Ralph Lauren

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taking too long. VCs are slow to say yes, but they'll never say no. The longer they can push you off, the more options they keep open. So we said, "Screw it! We're going to do it anyway." We flew out to San Francisco to sign up restaurants and do guerrilla marketing. We bootstrapped, and it paid off. The restaurants were really receptive, and the orders started coming in aggressively. People in San Francisco loved it, and investors noticed. We opened in San Francisco in October 2007 and closed our first capital round that November.

STILL, EXPANDING to a second market was really difficult, because we weren't living there. This business is hyperlocal. We didn't know the neighborhoods the way we do in Chicago. We wanted to be a national company, but we couldn't afford to put an office in every city in the U.S. So we had to figure out a way to build a market, drive awareness, and sign up restaurants without having to pay rent. We ultimately hired a San Francisco manager who physically went to restaurants, signed them up, and built our network. These days, instead of having managers in each place, we just have people on the ground in our top 10 markets. The rest of our sales team is in Chicago and New York City.

WE'RE ONE OF the few consumer internet companies for which offline advertising works really well—specifically, at transit hubs. People coming home from work around 6 p.m. are hungry and very susceptible to our message. We figured this out when we advertised on mass transit in Chicago. We had noticed that the person managing the outdoor ads was really bad at taking them down, so we knew if we bought a month of space, we'd get five. That placement worked very well. It has been a staple of our advertising ever since. In New York City, you'll see Seamless ads plastered on the subways and buses.

When we announced we were keeping both the GrubHub and Seamless brands, the resounding response was, "Why?"

BEFORE THE MERGER, Seamless was our biggest competitor, so I was very aware of what it was doing. I would have been loath to say it before we merged, but the companies were similar—we were solving the same problems but in different geographies. Seamless consistently made very smart decisions, both with product and marketing. My view on competition is, if someone comes along with an improved product at a cheaper price, then we damn well better do a better job, or we deserve to fail. So, we can copy what they do and make it better, or we can merge with them.

WHEN WE ANNOUNCED we were keeping both the GrubHub and Seamless brands, the resounding response was, "Why?" GrubHub was doing a really good job nationwide—but Seamless had incredible brand awareness in New York. It's like a religion there. By keeping both brands, we didn't have to spend money to promote Seamless in markets outside of New York or to promote GrubHub inside New York. We were able to optimize those marketing dollars and reinvest in our product.

WE'RE CONSTANTLY working to improve our technology. We launched our mobile platform in 2010. That was major—it's a lot easier to pull out your phone and order with three thumb taps. But that's obvious. Our tablet technology, on the other hand, wasn't so obvious. We realized that certain restaurants were having a hard time keeping up with the volume of orders. Historically, we'd send them by fax—but the fax machine runs out of ink or gets jammed. So we built a tablet app for restaurants to confirm and complete orders, send messages back to us, change a menu item or the restaurant's hours—whatever they need. Now, nearly half of our 175,000 daily orders go through our tablet technology. We give tablets to the restaurants doing high volume. I want them to have one, because then they can process orders better and faster. And that means everyone is happier: the diner, the restaurant, us. It's just smart.

EVERYONE TALKS ABOUT next-day delivery being a coup for online companies—at GrubHub, we execute the delivery experience within 60 minutes. That's the unsung part of our business. To do this, we have a team of more than 300 customer care agents in Chicago proactively managing the status of meals nationwide. If your order hasn't been confirmed within five minutes, someone from GrubHub is calling that restaurant, because we don't have time to spare. If your order's not out the door in 20 minutes, then we're on the phone figuring out what's wrong. There's still the issue of the delivery drivers, so we're working on a tool to help them be more efficient.

THE IPO PROCESS, at a fundamental level, exposes what makes every company tick. If that message is complicated, the IPO process is tricky. In our case, it was very simple. We have a business model that everyone understands. Not a lot has changed since we went public. The big difference is that we have an extra $200 million on our balance sheet. You can't let financing drive the strategy of the company, but the company needs to grow and evolve and get stronger. Having money helps.

THE GROWTH OF GRUBHUB

GrubHub has quickly become a popular dinner option for harried workers. These days, nearly 50 percent of orders are placed via mobile devices.

30,000
Restaurants

700
U.S. cities

175,000
Orders per day

$1 BILLION
Gross food sales via GrubHub in 2013

SCAN THIS PAGE TO SEE A VIDEO WITH MATT MALONEY. (See page 10 for details.)

My Mobile Business Model



Evolving from horse-and-buggy to state-of-the-art

Company founder Henry T. Batterton first introduced Birmingham, Alabama, residents to the joys of Royal Cup Coffee from his horse-drawn wagon in the late 1800s. Since then, his successors in this still family-owned business have grown the company into a major importer, roaster, and distributor of premium coffees and teas with national and international reach, serving customers in the food service, office, and specialty coffee markets. In the spirit of its founder, Royal Cup is taking its show on the road again, and it's going in style with a highly customized 2014 Mercedes-Benz Sprinter Model 3500 High Roof Extended Cargo Van with 170-inch wheelbase.

The mission for the company's first Sprinter mobile café is straightforward, says Robert Cole, vice president of marketing: "We want to better serve our customers and to share the great experience of Royal Cup Coffee with the communities we serve." The company envisioned a Sprinter with a complete barista bar outfitted with state-of-the-art brewing equipment, a full graphics wrap, and an exterior pop-up digital flatscreen monitor for images and videos. It turned to upfitter Kitchens on Wheels (KOW) in New Braunfels, Texas, to make it happen.

Payload and reliability

The job was a challenging one, says KOW owner Felix Elorriaga, but Sprinter was the perfect vehicle for it. "We had to pack a lot of equipment into this upfit, and the Sprinter's extra space really helped. For example, we were able to mount a 25kW generator inside the van to meet the heavy power demand." Full winterization, including heating pads for the under-chassis water tanks and dielectric heat tape-wrapped water lines, means Royal Cup can use its Sprinter for community events in all kinds of climates, with ambience provided by the weatherproof outdoor speakers mounted underneath the van.

Royal Cup Coffee's decision to go with Sprinter for its mobile café was based on its positive experience with a 2008 Sprinter Model 3500 High Roof Extended Cargo Van it uses to service accounts in the Washington, D.C., market. "The high roof and extended wheelbase allow us to move a lot of payload," says Jim Collins, Royal Cup's fleet manager. "We have been impressed with the reliability of this van. Less downtime helps us stay focused on serving our customers."





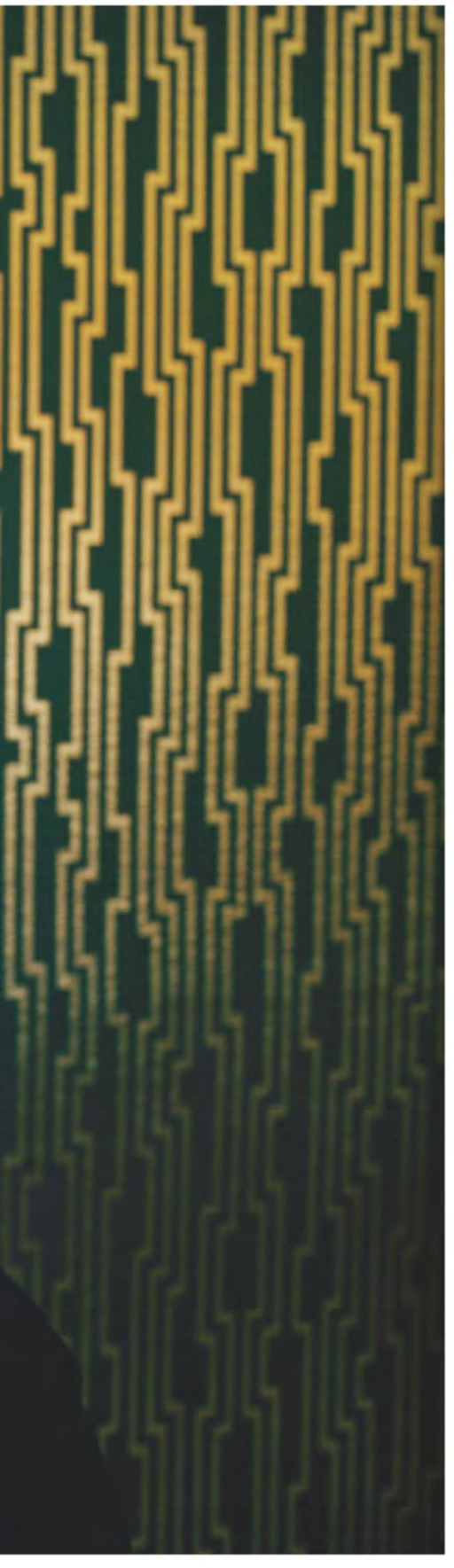


Build Your Sprinter Business Model

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UP FROM NOTHING
Once, he lived on the streets, but now Gabriel Bristol runs Intelicare Direct, a successful call center business with more than 300 employees.



The Calling



Gabriel Bristol was homeless. Abused. Selling his blood to get by. But he discovered he had a special talent: appeasing angry customers over the phone. Now, his call center business is booming—and providing jobs for fellow outcasts

By Burt Helm

Photographs by Ye Rin Mok



"WHAT DO YOU MEAN, a *50 percent* refund?" says the voice on the other end of the line. "Are you serious? When the account has already been suspended? That's not fair!"

Blood rushes to my cheeks. I desperately want my next sentence to calm her down, to sound confident, sympathetic. I want this customer—*my* customer—to feel assuaged. Satisfied.

But as the little timer on my computer screen ticks into the call's ninth minute, I have other worries: I have to say "please" and "thank you" at least twice. I have to keep my refunds-per-call metric low. I don't realize it at the time,

but also I have an audience: The call center's president and CEO, Gabriel Bristol, is secretly monitoring my calls from his office. He, I am learning, is something of an obsessive.

"You say 'um' too much," he cheerfully tells me the next morning, minutes into breakfast. I've joined him, his life partner, and his adopted daughter and son, both 11, at a Las Vegas brunch place a few miles from the Strip. They're all dressed preppily, in woolens and saddle shoes. It's Sunday, family day. But Bristol can't yet put me and my ums behind him.

Never say "um," he tells me. In the customer service jungle, this signals weakness, uncertainty. Instead, I should pause. Speak slowly. Let the caller hang ... on my every word. "It makes you authoritative," he says. Customer service, a business of micro human interactions, is full of these tricks, ways to keep a caller calm—and keep her money—all while making her think it was her idea. Bristol knows this. He's spent 10 years working the phones himself.

I've flown out to his offices to learn about call centers. Bristol, who took over a phone room of about 40 people two years ago, has big plans for his—so far, he's grown the business into a 300-plus-employee company called Intelicare Direct, with locations in San Diego and Las Vegas. Bristol is consumed with thoughts about the industry. He wants to fix it, to make call center jobs—widely regarded as the scutwork of the white-collar world—into valued, rewarding careers. For him, it's deeply personal. Call centers brought him up from nothing. On the telephone, he's something of a virtuoso.

I'll bet you didn't know call centers had virtuosos. Bristol didn't either. At least, not until the day he found out he was one. It was 1989. He was 19, freezing on the streets of Lansing, Michigan, giving blood for money. A runaway. Homeless.

BRISTOL GREW up in Spring Lake, Michigan, a village of 2,500 people on the shores of Lake Michigan, the fourth in a family

Voices of the call center



MARCO MADRIGAL, 22

Before Intelicare: Clerk at a self-storage company

"Before the recession, I was making $25 an hour doing construction. Since then, it's been hard. I worked at a self-storage place, but that was just a job. There was no room for growth. My girlfriend is having a baby soon, so I needed a job that's at least stable. The fact you can bring kids here when childcare falls through, I thought that was great. And I'm going to try to get promoted here, to work my way into management."



JOIE ANDRE, 38

Before Intelicare: Part-time worker at another call center

"After a year working at the last call center, I asked if I could apply for a supervisor job. The HR director was blunt: 'That's not going to happen.' I asked for a raise—even if they'd given me just $1 more an hour, I would have stayed. Instead, I left and came here. Six weeks after working the phone, I became a team leader. I feel like they saw something in me. They trust me."



CARMEN GUTIERREZ, 60

Before Intelicare: Sales associate at Home Depot

"When I took this job, I was desperate. My roommate at the time told me about it—that I could get 40 hours and benefits. I work the 5 a.m. shift, because there's not much traffic on the way in, and it gives me time in the afternoon to take care of my grandchildren."

of five adopted children. Child services took him away from his birth mother when he was 5. His earliest memory is of waiting for her at the police station as she was being booked on prostitution and heroin charges.

Bristol's adoptive parents, a cement-truck driver and a stay-at-home mom, were devoutly Christian. But Gabriel and his biological half-sister, Joanna Bristol, who was adopted along with him, say the couple used their religious beliefs as a pretense to control and abuse them. "After every meal, we would have to read the Bible," recalls Joanna, "and we'd all have to recite a sentence from the passage from memory. And if you couldn't get it, they would beat you for it. It was so scary." The siblings say they had to ask permission to bathe, to brush their teeth, and even to have a drink of water—or else have their ears pulled or their faces slapped. Gabriel received the worst of it, he says. "I was hit every day," he says. "Every day. Some days, I couldn't go to school because—I didn't get this at the time—my mom knew if I went to school looking like that, she'd get in trouble."

"Gabriel really suffered a lot," says Joanna, "because the dad knew he was feminine, or gay or whatever you call it. He would beat Gabriel constantly. I don't know if it was because he enjoyed seeing Gabriel in pain, or because he was trying to make Gabriel more manly. But it was horrible." (Their father is now deceased. Their mother, who hasn't spoken to Gabriel in 27 years, denies he was ever beaten. "How could you make him more manly by hitting him?" she says. "There was nothing like that. Nobody hit anybody. I don't understand where all this is coming from.")

At school, Gabriel struggled to fit in. He had few friends. "A lot of times he would go outside by himself and role-play, kind of like an escape," says Joanna. "Just making believe, talking to himself in different voices." Puberty isolated Gabriel further, when he realized he was attracted to other boys. He

The workers of Intelicare Direct



JAVIER MARQUEZ, 21

Before Intelicare: Customer service rep at Wells Fargo

"My mother passed away, and I needed a change, emotionally. I moved to California and moved in with my cousin. The week before I started this job I totaled my car, so I take the bus an hour each way, which is a little difficult. But it's great here. I don't feel isolated like at my last job—it was a big company. Here, everybody knows your name. My plan is to go to school to become a dermatologist."



ALEKSANDRA MICAIAH, 26

Before Intelicare: Immigrated from Poland four years ago; sales clerk at a gift shop

"Sometimes callers would get upset with me because I'm obviously not American. They'd assume the call center was not located in the United States. I'd get so frustrated—like, I came all the way over here! You've got it backward! It could be really hurtful. But there was always support from my teammates. Once, I had my team leader call the person back—like 'Hey, we really are American!' "



BRET LANE, 54

Before Intelicare: Laid off from a job in telecom sales; unemployed for 18 months

"I'd left Modesto, California, and moved in with my stepsister down here with everything I own, which now fits into a 5x10-foot storage unit. It's hard to find work at my age. Now, I'm getting back on my feet, saving some money. I'll be renting my own place again in a few months."

kept those feelings secret, hoping no one would notice.

Still, people knew. "Other kids would come up to me and say, 'Is Gabe a fag?'" recalls Lara Harris David, his high school friend and prom date. "He and I were both rejects. We really bonded over that." For the prom, Harris David and Bristol had fun designing their own outlandish outfits—Bristol's bolero jacket, top hat, and big leather boots got a lot of attention. A popular girl invited them to a bonfire party after the dance. But around the bonfire, as Bristol tried to enjoy himself, it soon became clear he'd been invited as a joke.

"Throw the faggot in the river!" shouted one boy. Several other kids chimed in, and two boys grabbed Bristol. Before they could finish the job, he struggled free. Traumatized by the episode, Bristol stopped going to school shortly thereafter. Following a particularly bad fight with his parents, he got on a Greyhound bus to the first big city he could think of: Lansing.

Bristol drifted around Lansing for a while, eventually falling in with a group of goth kids who let him crash on their couches. He started dating another guy who'd been kicked out of his parents' house and who worked at a call center. He got Bristol a job there. As it turned out, Bristol was a natural—he had a talent for sensing people's emotions, detecting hints of agitation, saying things that kept them relaxed.

When I ask Bristol where he thinks those talents came from, he points to frightening moments from his childhood. "If you knew that if you raised your voice a tiny little bit, or if you looked at me in a certain way, that I would haul off and smack you?" he says. "You would start to read me, figure out how to keep me in a good place. That's a skill I learned. To give everybody what they need."

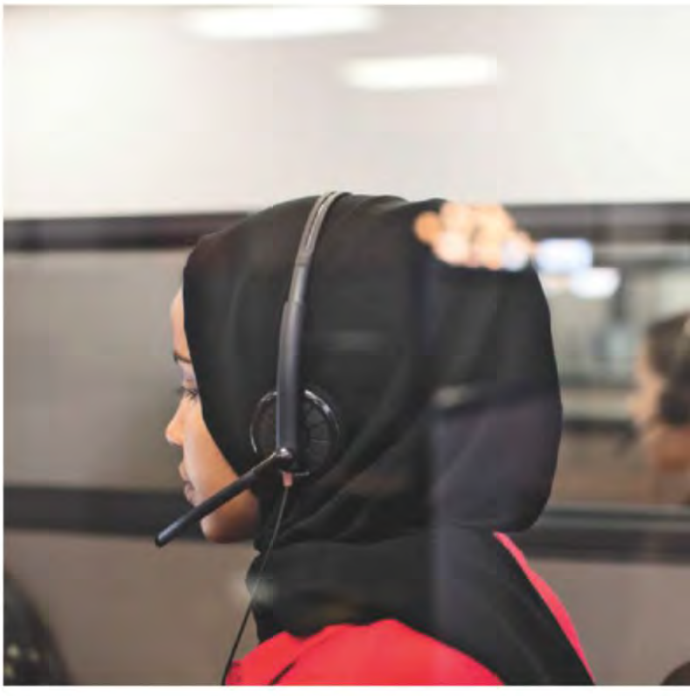
Before he knew it, Bristol was collecting one performance bonus after another. It was a strange feeling. After struggling in school, at home, and with friends, he'd found something he was good at. But it was a skill pretty much no one admired.

Bristol worked more call center gigs and pulled together enough money to buy a Greyhound ticket to Los Angeles. He had no place to stay at first, but eventually he was able to rent a studio apartment. He dreamed of doing something else—acting, modeling, working at a clothing boutique—but call centers paid. After a while, he'd gotten enough experience to manage one himself. In 1999, he got a job at MetLife, running a 30-person phone room in a department that sold annuities.

When Bristol arrived, the staff was a mix of slackers and oddballs, the eccentric and the surly. One prospective rep came in for an interview wearing three pairs of sunglasses (head, neck, and face), and when Bristol asked him about it, the guy snapped, "What's your problem?" Another day, a new hire in her 50s interrupted training when she scrunched up her face and groaned. Bristol was confused—until he got hit with the smell. "Don't worry," the woman said. "I'm wearing a diaper."

"You've got these people with a lot of challenges, a lot of baggage," he says. Still, he knew there must be good people there. After all, he'd been one.

Bristol restructured pay, cutting hourly wages and increasing bonuses. He fired diaper lady and people like the glasses guy. Performance improved. In three years, sales increased from $8 million to $22 million. Then Bristol got a



A Very American Industry

Although some companies have moved their call centers overseas, the customer service industry is still going strong in the U.S. It's among the fastest growing jobs that do not require a college or high school diploma.

Customer service reps in the United States, as of 2013

2.4 million

As of 2011, India had an estimated **350,000** *reps. The Philippines had* **400,000** *reps.*

27%

Increase in the number of U.S. customer service reps since 2001

Where customer service representative ranks among jobs in the U.S.

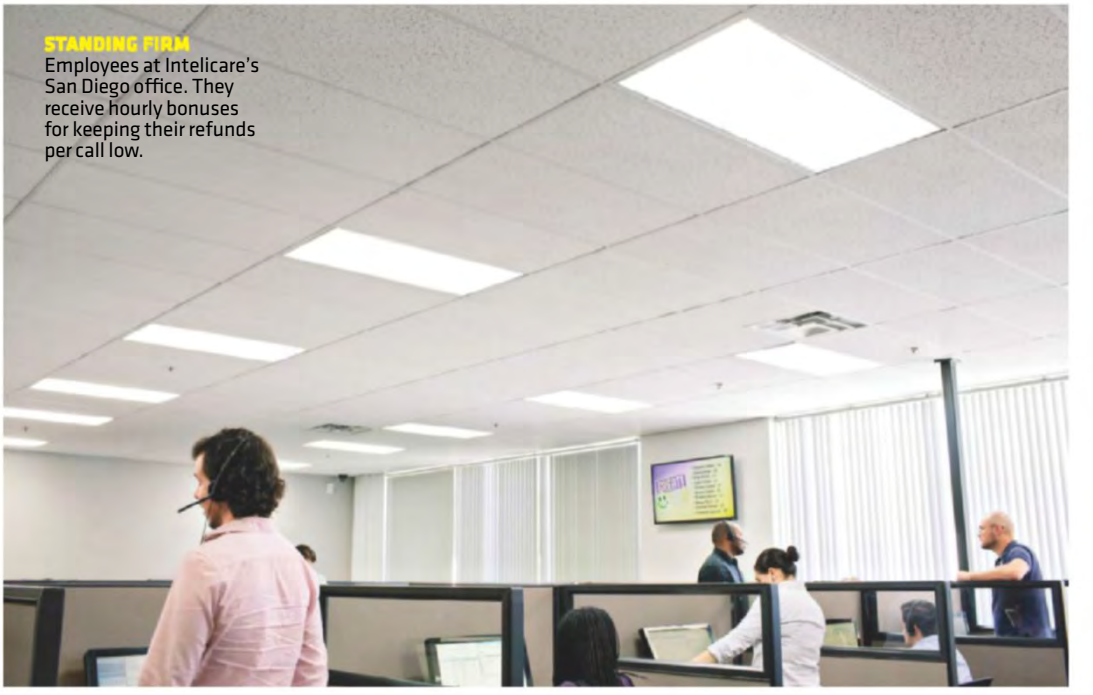
7th

It trails retail salesperson, cashier, food service worker, office clerk, nurse, and waiter/waitress.

13%

The projected increase in the number of U.S. customer service jobs in the next 10 years





STANDING FIRM
Employees at Intelicare's San Diego office. They receive hourly bonuses for keeping their refunds per call low.

call from JCPenney's direct marketing subsidiary, offering to hire him for $90,000 plus bonuses—twice his annual salary. Bristol told his boss he was leaving.

"Hang on," his boss replied. "Let me make a call first." Ninety minutes later, Bristol's boss called back and told him the company would match JCPenney's offer—and give him a $10,000 cash bonus. Bristol was shocked. He'd been working there for three years, and in 90 stupid minutes, they'd doubled his salary. Just like that.

The lesson didn't hit home until later, at a MetLife sales conference in Las Vegas. There, he was invited to attend a company-sponsored dinner at Spago, a four-star restaurant at Caesars Palace casino. Feeling self-conscious about MetLife's generosity and intimidated by the men around him—several of the salesmen wore Rolexes—Bristol ordered the cheapest entrée on the menu.

But at dinner, the men he thought were so impressive just complained: MetLife didn't give them good enough leads, it had taken too long for them to reach their $200,000 annual salaries, and so on. Bristol was shocked. These guys made twice what he did, and they didn't seem all that smart or hardworking. There was just one stark difference: They were the swaggering sales guys. He was the chump on the phone.

"We're those people you shove in the corner, that you put on a floor nobody goes to, or outsource to some part of the world that nobody ever sees," he says. "We don't know our own power. We don't know how amazing we are."

After MetLife and a couple of other jobs, Bristol finally tried leaving call centers. He yearned for people to see the value of his profession. But he also just wanted some more money and respect. He and his partner at the time had just adopted two small children. He bought and flipped property during the real estate boom, and got a job running HR for a Los Angeles–based startup. But the housing bust quashed those dreams.

In 2012, he replied to a listing for a call center manager job at Instant Checkmate, a background-check website that, for a monthly subscription fee, lets users perform public records searches. The site, created by San Diego entrepreneurs Joey Rocco and Kris Kibak, already had a call center, but "it was poorly managed," says Kibak. "The quality control was not there."

> For the first time, Bristol was running the show. He'd build call centers the way he thought his people deserved.

Bristol came into the interview and promised to fix those problems. "He was very much a salesman," says Rocco. "I remember smirking in the interview, like, wow, he's good." They all agreed that he should run the customer service department as a standalone company and bring in his own clients and revenue.

And so, for the first time, Bristol was running the show. He leased new office space in Las Vegas and built another

location in San Diego. He'd build call centers the way he thought his people deserved.

TO GET A SENSE OF BRISTOL'S dream, I start my corporate training in the company's low-slung San Diego office, bright and early on a Thursday morning. As I walk past the reception desk, I hear the low din of phone conversations filtering up from row after row of the sleek, minimal desks. The voice nearest me is explaining to someone that, yes, she did agree to the terms, and asking that she not be so hard on him. I pass by lounge spaces, where employees gather for informal meetings, and a "fun room," where people can kick back and play video games, watch TV, or mess around on iPads. On the floor near one rep's feet, a big yellow Labrador retriever lolls, watching passersby. (Employees are allowed to bring their children and their dogs to work.)

I find a place in the conference room next to four new recruits. Up front, Jasmine Cook, a primly coiffed HR woman, reviews the basics for us: All employees work 40 hours a week for health benefits and a base rate of about $11 an hour, plus a $1 hourly bonus for keeping refunds per call below $7. Each shift includes a paid "wellness" walk. A personal trainer leads fitness classes twice a week.

Throughout the day, different managers come in to speak to us, and since each one asks us about ourselves, I hear the other trainees' short bios again and again: The baby-faced guy with the bouffant hair is Javier Marquez, 21. He has recently moved from Arizona and wants to be a dermatologist. The guy in the suit is Chris Podaca, 26. He has worked as a busboy and dreams of going to nursing school.

The managers smile encouragingly. It seems assumed that nobody actually wants to work at a call center.

A few days later, I shadow a rep named Ava Albanese. We sit elbow-to-elbow in her cubicle, as I watch her work. You wouldn't know by talking to her that she's one of the top reps at Intelicare: She's 21 years old, shy and sweet, with braces, chunky plastic glasses, and a high, almost squeaky, voice. She hands me a headset. Soon enough, her computer demands our attention with an alert window and a loud ring. She clicks Accept and answers with the scripted greeting.

"Thank you for calling Instant Checkmate Member Services. This is Ava. How may I provide you with excellent customer care today?"

The caller had gotten the five-day trial, and he wants to cancel. Most callers, it turns out, want to cancel. Instant Checkmate tantalizes Web surfers with the prospect of uncovering dark secrets about their neighbors and loved ones. ("Warning! This background report may be graphic!" reads one pop-up window. "We have millions of records that could expose your subject for who they really are!" reads another.) In reality, the site performs basic public records searches that generally turn up a few old home addresses or maybe a parking ticket. The service then automatically bills customers' credit cards close to $30 a month. Perversely, that makes for good business at Intelicare: As many as 7,000 people call every day about Instant Checkmate. (Intelicare also has two other clients.) In a typical shift, Albanese handles about 40 calls.

The challenge of her work is maintaining a smooth perkiness during this daily parade of vexed souls—all while clicking boxes and typing notes. She's like an assembly-line worker who processes human irritation into docile acceptance. Albanese doesn't have an opinion about the Instant Checkmate service itself. She just likes keeping folks happy and her refunds-per-call rate low. (Refund negotiations follow a script, too: First, reps offer a simple cancellation with no money back. Then, a 50 percent "courtesy" refund. And finally—and only if the customer is boiling over with rage—or mentions the attorney general or the Better Business Bureau—a full refund. Between each step, reps put the caller on hold to "speak to a supervisor." But we actually speak to Albanese's supervisor only once, between calls, about the best place to get tacos nearby.)

After a while, Albanese lets me take over. It's a lot harder than it looks, all that simultaneous clicking and typing and happy talking. And it becomes near impossible when I have customers who are truly pissed. The harder I try to sound calm and soothing, the more my voice quavers. And though my responses get more polished after a few calls (someday, I might even stop saying "um"), I can't stop feeling their anger. I know it's illogical to feel bothered by these random voices in this tinny headset. But I can't help it.

As many as 7,000 people call every day about Bristol's client Instant Checkmate.

LATER, I'M SITTING IN on a senior staff meeting when a manager announces the top reps of the month. Bristol asks someone to fetch the winner so they can congratulate her.

In walks Aleksandra Micaiah, a 26-year-old with—at the time—bright pink hair. Jolinda Fields, the San Diego manager, tells Micaiah she has won. The room applauds.

"Really?" Micaiah asks. She looks around, smiling, and then starts to cry. "I'm so honored," she says, "because, I'm not even from here."

Micaiah moved to the U.S. from Poland four years ago, and she still has an accent. That makes her easy bait on the phone. She explains she never thought she'd be any good; customers had always ripped into her for being foreign. Bristol embraces her. So do the others. As if on cue, a friendly bulldog trots in from the main room and jumps up onto the group hug.

Micaiah thanks them and leaves. Afterward, the managers commiserate. Nearly all of them have worked the phones—Bristol staffs his

CONTINUED ON PAGE 110 ►

"We saved enough energy to bring a new middle school off the drawing board."

Loudoun County Public Schools Superintendent Dr. Edgar B. Hatrick



NAME: Loudoun County Public Schools, Virginia

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GET REAL

Jason Fried

The Price Was Right. Selling Wasn't

Unloading a noncore business is trickier than you might think

BACK IN FEBRUARY, we announced that we were changing the name of our company from 37signals to Basecamp, and would be concentrating on just one product—Basecamp. This meant finding new homes for our other properties. We decided to start the process with Highrise, our customer relationship management tool, because it was our second-most popular product and it would command the highest price. On its own, Highrise generates several million dollars in annual profits, so we figured it would be attractive to someone.

Immediately after making the announcement, a flood of emails came in from companies and investors interested in kicking the tires. I expected some interest, but never so much so soon. We narrowed the field to about a dozen companies that we felt would provide a great home for our customers and fertile soil to grow Highrise to its full potential. The fit was critical—we rejected a few deep-pocketed buyers because their plans were to shutter Highrise and roll its customers into their existing product. That wasn't an outcome we could live with.

The finalists were notified, we shared the prospectus, and they had a few weeks to submit a bid package and long-term plan to improve Highrise. I can't say who was involved in the bidding, but it was some of the usual suspects (big software companies) and some unusual ones (smaller software companies and private equity firms). A healthy mix, for sure.

But in the end, we couldn't make a deal. The sticking point wasn't the valuation or price. It was the fact that Highrise didn't come with a team. Everyone who worked on Highrise would be staying at Basecamp. All the serious buyers wanted the team, too. No deal. We weren't downsizing; we were just focusing everybody on Basecamp.

This meant selling Highrise was off the table, so we turned to doing a spinoff—and we needed a leader for the new company. Back in 2007, I met a smart programmer named Nate Kontny at a Chicago networking event, who said he'd been inspired by the work we were doing at 37signals. Nate emailed me periodically in the years that followed. Occasionally I'd get a note mentioning a bug in one of our products, or an idea to better optimize a page. He was trying to establish a relationship, but he always did it by offering something useful, never by just kissing up or with any expectation of a payback.

The right opportunity for Nate to join 37signals never came along, but I did get to know him better when I agreed to be an adviser for a product he built called Draft, which shared a design and user-experience sensibility with our company. I learned that Nate is a great programmer, a great product thinker, a great leader, and a hell of a nice—and driven—guy.

Although a couple of other names came to mind, I knew as soon as we started thinking about a spinoff that Nate was the perfect fit for Highrise. Now, a few months later, it is a separate company (legally a subsidiary of Basecamp) and he is its CEO. During the transition period, Highrise will lease some infrastructure from Basecamp, but ultimately it will be completely self-sufficient. Plus, because Highrise is profitable, it has required no outside money to get off the ground.

One of my biggest worries in trying to sell Highrise was that the principles that make it special—its simplicity, its ease of use—would eventually be lost. We heard the same fear from customers, who were already frustrated that we had let the product stagnate as we spread ourselves too thin. When we announced the spinoff and Nate's leadership, the reaction was entirely positive—people can't wait to see Highrise continue in its original spirit. I can't either. Nate will have to hire a completely new team to run the company, but the beauty of having him in charge is that I know the core values will remain constant. It just fits this way.

Jason Fried is co-founder of Basecamp (formerly 37signals), a Chicago-based software company.

JEFF SCORTINO

LOCK IT DOWN: PROTECT YOUR ASSETS ON THE ROAD

Even the seasoned business traveler can overlook the importance of security precautions while traveling. Sure, you're comfortable on the road, but don't let that comfort lull you into complacency. You've got to protect your devices and your data.

David Jevans, founder and CTO of Marble Security, a mobile threat-prevention firm, shares his best security tips for road warriors:

- Always have an access password for laptops, phones and other mobile devices.
- Turn encryption on if it's offered.
- On all of your devices, use a reputable VPN service when connecting through non-secure WiFi hotspots.
- Never back up files or devices onto unencrypted USB drives.
- Be wary of phishing emails and apps that are offered to you while traveling, especially on mobile devices.

Robert Siciliano, security expert with TheBestCompanys.com, an antivirus software review site, urges travelers to "bag it": "Keep your laptop in a sturdy bag that's specially designed for laptops," he advises. "The sleeve should be well-padded and the bag TSA-compliant." The right bag will protect your devices from damage as you zigzag through airport crowds to make it to that gate on time.

Siciliano also suggests using a cable lock, which can keep a thief "at bay if the laptop is in a busy public place," he notes.

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COLLISION COURSE
CONTINUED FROM PAGE 34



of customers and dealers, he created a large metal see-saw etched with the word *Consumer* on one end and *Dealer* on the other. At company gatherings, groups of employees stood on both ends of the see-saw and tried to achieve a perfect balance.

While the new TrueCar has probably resulted in some consumers paying more for cars than they did using the old site, Painter believes he finally has a sustainable business model that benefits both buyers and sellers. He points to a recent TrueCar survey showing that most consumers believe dealers make a 20 percent profit on a new car—more than five times the average margin of 3.8 percent—and that if they discovered that dealers made nothing on a car sale, they would voluntarily tip them 8 percent. This shows that car buyers want the dealer to succeed, Painter says—they just don't want to get ripped off. That's where TrueCar comes in.

All together these changes produced a stunning turnaround. Since the depths of the Swirl in February 2012, TrueCar has more than doubled the number of participating dealers, to around 9,000, website traffic and the volume of cars sold have nearly tripled, and quarterly revenue has more than tripled.

Not all of TrueCar's indicators are positive. Its IPO last spring, during a period of market volatility, raised only $70 million—its shares traded below its initial forecasted price—and its first earnings report this August included a $15 million net loss thanks to increased operating expenses, mostly for sales and marketing to attract new customers.

And Painter still has many critics. David Ruggles, a former dealer who is now a prominent consultant and writer, says, "I'm not mollified in the least." He argues that TrueCar encourages the consumer to behave like a poker player who demands to see everyone's cards before placing a bet. "Painter gets up and apologizes and says, 'We were arrogant and we were wrong,' because he lost millions in the dealer revolt. But his objective is still the same. The whole principle of demonizing dealers is opportunistic and I hate it. He's not out to change world for the better unless Scott Painter makes a buck doing it."

TrueCar also recently annoyed dealers by announcing it will no longer offer financial credit to dealers who can prove a sale involved a third-party site other than TrueCar. Meanwhile, the mega retailer AutoNation plans to spend $50 million building its own web tools to generate leads, cutting out internet sites such as TrueCar and Cars.com. Some dealers are even turning the tables on Painter by showing customers TrueCar's prices to prove how competitive their own offers are, helping them close the deal without paying a fee to TrueCar.

As for whether Painter has truly changed, others share Ruggles's skepticism. "He's still arrogant and full of himself," says Hall of the Virginia state dealer's association, who adds that he was using a "keep your friends close and your enemies closer" strategy when asking Painter to speak to his group's annual convention in 2012. "But I like Scott and admire him, because he's smart enough to recognize problems and change the way he operates. He walked into a lion's den when he came to speak to us. It took a lot of nerve to do that."

Painter is, at least, a wiser man about the forces of technological disruption, insisting that internet entrepreneurs cannot have the same haughty attitude they did during the heady days of the '90s. That's when his CarsDirect was one of the many internet companies to emerge from Bill Gross's legendary Idealab, along with spectacular flameouts such as eToys. "Everybody was rolling with the zeitgeist of the time, saying the internet is going to transform everything," Painter says. "But that's one of the blind spots of technology investing in general. Disruption for disruption's sake is not a good idea in terms of creating long-term sustainable value."

It took a lot of personal and professional turmoil for Painter to realize that. But today, he spends more time with his wife and children; he's also lost weight and downsized his lifestyle by selling some of his cars. Now the company that he has bet all his chips on needs only another few thousand franchise dealers to reach the sweet spot of 11,000 to 12,000 that Painter believes will allow TrueCar to really take off—giving its certified dealers a competitive edge over the other 19,000 or so dealers nationwide while ensuring that TrueCar customers can choose from a wide selection of dealerships selling every major brand in all geographical regions of the country. That would put this restless entrepreneur on the path to creating a company he could someday leave for his children.

"Disruption for disruption's sake is not a good idea. The true spirit of disruption is to effect a better outcome."

"The true spirit of disruption is to effect a better outcome," says Painter. "Only by having this near-death experience did we realize that the real disruption would be to restore the trust between auto retailing and the consumer. The industry has a big existential crisis ahead of it—the consumer fundamentally doesn't trust auto retail at all. Today, the consumer knows more about the car than the person selling it, and car dealers have worse reputations than members of Congress ... "

Uh-oh. There he goes again.

—

PAUL KEEGAN *is a contributing writer for* Inc.


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▶
THE CALLING
CONTINUED FROM PAGE 104



management team with former entry-level reps. ("See those two empty rows of desks?" a team leader had said during training. "There will be new teams there. They'll need team leaders. They could be you.") And all have had calls that still haunt them. Bristol recalls a guy from years ago who'd hurled homophobic slurs and threats, getting more and more vicious and explicit until Bristol couldn't take it anymore.

"Finally, I just said, 'You're not even going to buy me a drink first?' "

They all laugh. They seem unified by their shared hurt. Like Bristol, many of his staffers were in tough spots when they found call center work—manager Kevin Simpson had lost his construction job and been sleeping on a friend's porch when Bristol hired him. These are the people Bristol wants. Smart people who just need a shot, but don't know they deserve one. And, besides, it's not like the people with the flashy résumés come looking for work here.

That afternoon, Bristol and I are driving back from lunch when I ask him whether, if economics allowed, he'd hire every person in trouble and pay all his reps six-figure salaries. He says no. "The work doesn't merit that," says Bristol. Plus, many of the employees he has hired "weren't capable" or "weren't ready" for the job. In his view, there are diamonds in the rough, but there's also a lot of rough. To chisel it all away, he uses some blunt tools. The attendance policy is strict: Employees are fired for being tardy or absent five times in a 90-day period. There's also the set of quality assurance requirements, the mandatory "pleases" and "thank yous" and so forth. Mistakes lead to written warnings, and eventually termination. As a result, Intelicare fires a lot of people. Bristol concedes that's probably led to the departures of some good people along with the bad. (Since my visit, Marquez, Podaca, and a few others have left the company.) For better or worse, all that churn helps Bristol find gems that others have overlooked.

That includes people like Joie Andre, a 38-year-old in the San Diego office. Before Intelicare, she worked at a call center that sent workers home when business was slow—she was lucky to get more than 10 hours a week. "I made more money on unemployment," she tells me. When, after a year at her old job, she asked for a $1 raise to her $8 hourly wage—and whether she could apply for a supervisor job—the HR person turned her down flat.

But Andre is a natural manager, someone who loves figuring out ways to mentor and motivate people. Less than two months into working at Intelicare, a supervisor noticed that Andre had a knack for teaching her co-workers, and promoted her to team leader.

At one point, I watch Andre coach a young rep named Angelina Olson through a sticky negotiation. (An irate customer had been charged $59 for a six-month membership, but he believed he'd signed up for only a couple of days.) Andre shows Olson how to reframe the conversation by giving the caller a 50 percent refund but also leaving the account open for the remainder of the six months. ("That equals out to just $4.90 a month!") It works. Afterward, Olson beams at Andre. "I love you," she says. Andre laughs and smiles back. "I love you, too."

At that moment, Andre's 8-year-old son, Michael, runs over from the fun room. San Diego schools are on spring break this week and some kids have been watching the movie *Frozen*.

"Michael, tell this man what Mom does for a living," she says.

The fidgety little boy looks at his mom, then at me. "She supervises and helps others," he says. Andre swells with pride. She's never before had a job she felt proud of, she tells me.

In the months since I visited, Intelicare has promoted Andre again, to assistant manager of the Las Vegas call center. With the money from her raise, she rented a three-bedroom house with a yard and a garage—the first time Michael has ever had his own bedroom, she says.

Meanwhile, Intelicare continues to grow. Sales are on track to exceed $11 million in 2014, a 120 percent increase from last year. And Bristol is planning to open a new location, in San Jose, California. He has ambitious plans. He wants to build a call center without cubicles—replacing them with mobile tablets and wireless headsets and comfy chairs. He imagines that someday his reps will provide his clients with strategic advice, insights they'd glean from their daily calls. It's unclear what he'll achieve—he may never build a cubicle-free call center. But what he has done is given his employees some hope. That they are valuable. That they are respected. That they, like him, can achieve something.

In our time together, I notice that Bristol has a strange habit. He likes to call his own customer service line—sometimes twice, three times a day, or more—to be the customer. I see him do it a few times, almost as if he were on a script. He'll call, and the rep will reply with the verbatim opener. He'll pipe up:

"Hi, this is Gabriel. How are you?"

An uncomfortable pause. "Good, how are you?"

"Do you know who I am?"

Another pause, and maybe a nervous laugh. "Yes."

"OK, I wanted to tell you your introduction sounds very good. Thank you." Having checked on them, Bristol will hang up. He knows everything's all right at the call center. They know what's possible on the other end of the line.

—

BURT HELM *is a senior contributing writer for* Inc.

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Service Concepts Prosper by Addressing Consumer Needs

by Mark Henricks

Most franchise concepts serve consumers, which only makes sense given that consumer spending represents two-thirds of the overall economy. "Most franchises to try to reach the consumer marketplace, simply because that's where most of the sales are," says Marc Hatch, vice president of Washougal, Washington-based NWBB Inc., which produces "The Franchise Minute" radio program.

Part of the reason consumer service franchises appeal to franchisees is that they generally have modest investment requirements. Many consumer service opportunities can be operated from home or as mobile businesses. That eliminates the need for a physical business location. Service businesses also avoid carrying costs of product inventories.

In addition to big markets and low costs, consumer service businesses allow franchisees to more fully address their passions. For instance, Hatch says, the owner of a business that operates youth flag football leagues works directly and daily with young athletes. "It's much different than if you were just selling footballs for a living," Hatch says.

Restaurant franchises are different in that they combine elements of both product and service businesses. And one of the best-performing restaurant franchises in recent years has been Bojangles' Restaurants. The Charlotte, North Carolina, quick-service chain is renowned for its biscuits made from scratch every 20 minutes, never-frozen chicken that has been marinated for 12 hours, and steeped iced tea. "In the end, what really makes Bojangles' great is the food," says Executive Vice President Eric Newman.

Addressing consumers' needs for food service throughout the day is also a big component of Bojangles' success. "Part of how we get there is that we're a strong breakfast chain," Newman says. "We do 40 percent or more of our business at breakfast and because we do breakfast all day, in some cases most of our business is breakfast." Every biscuit becomes the basis for more than 100 possible breakfast sandwich combinations available all day.

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Reading, Pennsylvania-based company franchises businesses that employ active seniors to provide non-medical in-home care to less-active seniors. "Seniors Helping Seniors is in the business of helping seniors be able to continue to live independently in their own homes versus having to go to a nursing home or assisted living facility," explains CEO and Co-founder Philip Yocom.

As a pure service concept, Seniors Helping Seniors lets franchisees get underway with low initial investment, no inventory costs and the option to operate from home. "Also operating our businesses out of our own homes is more conducive to creating the loving and caring environment that is important to our Seniors Helping Seniors community," Yocom says.

What is important to franchisees of Texas-based Thinique Medical Weight Loss is helping customers lose weight and keep it off. Thinique has developed a physician supervised weight loss concept that stresses long-term weight control. "Since inception we have grown tremendously and have added additional components including low testosterone and corporate wellness programs, providing multiple streams of revenue for our franchisees," says CEO and Founder Cris Cawley.

Thinique's heart and soul is serving patients, Cawley stresses. "We thrive on their success," she says. "We provide the tools and the support that they so desperately need to transition to a healthier lifestyle long term. We are knowledgeable, compassionate, driven by their success, and provide a level of customer service that is second to none."

Consumer service franchises, in general, are likely to be second to none when it comes to increasing their numbers in the near future, Hatch says. "I see that a lot of the businesses that have had success in the consumer service field are going to look at the franchise model as the opportunity to expand," he adds.

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David Cohen

The Techstars co-founder and serial entrepreneur doles out advice on how to test the market, prepare the team—and double the talent pool

As told to **SCOTT GERBER** Photograph by **MORGAN RACHEL LEVY**



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It's easy to stereotype about "wannapreneurs" and to say, "You know, you're not really an entrepreneur," but who are we to judge? If you want to take that risk and go for it, we should all be supportive of that. Not everyone is going to be successful, but that's OK.

What *does* it take to succeed?
The two big startup killers are when there's just no market for what you are doing, and team problems. The first is very preventable: Do some lean startup testing, get in front of customers, and see the response. The other often stems from not thinking about potential problems up front, like what happens if one person leaves. Talk about them and, ideally, write things down.

The "war for talent" is raging fiercely among tech companies and startups. Where can we find more qualified people?
There's one great way to double the talent pool: Get more women doing it. There just aren't enough women in the tech disciplines today. We need to encourage them from a young age, by making sure they have heroes to look up to, so they can say, "Wow, look at this company that was founded by this great woman." More role models will really help.

What's some of the worst advice that's given to entrepreneurs?
Aspiring entrepreneurs are often advised to work at a startup for a couple of years first, to understand what's involved. But often each company's approach to success is very narrow. So my advice is "Just do it." If you have passion, a great team, and a great network around you, this is a great time to go for it.

SCAN THIS PAGE TO WATCH DAVID COHEN DISCUSS INCUBATORS, ACCELERATORS, NETWORKING, AND MORE. (See page 10 for details.) For the Founders Forum video with *Inc.*'s Scott Gerber, go to *www.inc.com/founders-forum*.

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